

**Intermediate Macroeconomics**  
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**Midterm Exam II (Open-Book)**  
**Undergraduate Economics Program, HUST**  
**Wednesday, December/14/2016**

**Name:** \_\_\_\_\_ **Student ID:** \_\_\_\_\_

1. ( $5' \times 4 + 10' \times 2 = 40$  points) Answer the following questions.
  - (a) Bob has been working as a C++ developer for a company for the past 10 years, but just gets fired because the whole industry now prefers Python developers and C++ skills suddenly become useless. As a result, he cannot find a new job until he learns something else. What is the type of his unemployment?
  
  
  
  
  
  
  
  
  
  
  - (b) Ann has been unemployed for 3 months. Every time she attended a job interview, the human resource officers told her that her skills were worth ¥2000 per month, but the minimum-wage law asserted that salaries below ¥2500 were illegal. What is the type of her unemployment?
  
  
  
  
  
  
  
  
  
  
  - (c) Based on Solow model, what is the reason for the miracle of Japanese and German Growth after World War II?

- (d) How does Solow model explain the long-run growth in output per capita for an economy?
- (e) It is said that, the higher the output, the more the consumption, and hence the greater the social welfare. So an economy aiming to maximize its consumption should always pursue a greater GDP level. Is the statement correct?
- (f) For an competitive economy with real interest rate  $r = 0.08$ , capital depreciation rate  $\delta = 0.02$ , technology growth rate  $g = 0.03$ , and population growth rate  $n = 0.01$ , what is the policy suggestion for an authority who is interested in achieving the Golden-Rule steady state in the long-run?

2. ( $5' \times 6 + 10' \times 3 = 60$  points) Answer the following questions.

(a) In macroeconomic studies, how do we distinguish between a long-run scenario and a short-run one?

(b) Does the *Monetary Neutrality* still hold in short-run? Explain your answer briefly.

(c) Suppose there is a 3 percentage increase in unemployment rate for the past 3 months, according to Okun's Law, how should the output change accordingly?

(d) In the IS-LM model, how does an increase in money supply affect the IS curve?

- (e) According to the Impossible Trinity, if an economy wants to allow for free capital flows as well as to have full control over its currency, which exchange rate system should be adopted?
- (f) In an IS-LM model, if the investors are suddenly less willing to invest, then what effects does this change make to the equilibrium? Explain your intuitions.

(g) According to your answers in (f), if the government wants to stabilize the interest rate using monetary policies, how should it behave? If the government, instead, wants to stabilize the output level using monetary policies, what is your policy suggestion for it?

(h) If the authority believes that the fluctuations in business cycles of the economy are mostly caused by shocks to investments. And the authority wants to minimize the fluctuations in both  $Y$  and  $r$  during cycles. Should the authority take mostly fiscal or monetary policies while intervening the economy? Explain your answers using figures in IS-LM framework.

- (i) It is said that the trade protectionism, e.g., a higher tax rate for imports, is good for countries adopting fixed-exchange-rate systems but bad for countries adopting floating-exchange-rate systems. Yes or no? Explain your answers using the Mundell-Fleming model.