Macroeconomics 1
Problem set 10

Tick the correct alternatives (more than one may be correct) or write your answer in the space provided. Unless otherwise stated, the notation and behavioural assumptions are the same as in the lectures and textbook.

1. Use the IS-LM and AD-SRAS diagrams to derive the impact of the following shocks on the short run equilibrium levels of output, the interest rate and the price level.

   a) The central bank buys bonds from the public.

   b) Private agents want to hold more currency in their pockets as a proportion of deposits.

   c) Banks decide to hold more reserves for each £ of deposits.

   d) Nominal income changes.

   e) Real income changes.

2. The Chancellor of the Exchequer reduces government expenditure while leaving taxes unchanged. The Bank of England on the other hand decides to increase the money supply. Tick the correct alternative.

   a) The short run equilibrium level of output increases. True/false/uncertain.

   b) The short run equilibrium interest rate falls. True/false/uncertain.

   c) The short run equilibrium price level increases. True/false/uncertain.

   d) The long run equilibrium level of output increases. True/false/uncertain.

   e) The long run equilibrium interest rate falls. True/false/uncertain.

   f) The long run equilibrium price level increases. True/false/uncertain.