Economics tutorial

Economics

The final two classes of the term incorporate just 2-3 questions covering the new material covered and that are particularly focused towards exam preparation. The remainder of the class is for revision purposes Talk to your class teacher during the week 28 class to identify any areas/questions that you particularly want to revise.

Marks are only awarded for the justification you give. Note: in answering these questions use the information you are given; if you are in doubt and think the answer is ‘ uncertain’, state the assumption(s) that would make the answer less equivocal.

1. The extent and scale of the global financial crisis can be explained by the bursting of the US housing bubble.

2. Quantitative easing is an alternative monetary means to lowering interest rates when conventional monetary policy is no longer able to drive down the costs of lending.

3. Using the AD-AS model, and assuming that the economy starts from natural output equilibrium, show the effects of an increase in consumer confidence (such that consumption increases for any level of disposable income) on the position of the AD, AS, IS and LM curves in the medium run.

4. (a) Explain and discuss the following statement: “ Because neither fiscal nor monetary policy can affect the natural level of output, it follows that, in the medium-run, the natural level of output is independent of all government policies”. (b) If it is the case that neither fiscal nor monetary policy can affect the natural level of output, why is monetary policy considered neutral but fiscal policy is not?