

# **UNIVERSITY COLLEGE LONDON**

## **EXAMINATION FOR INTERNAL STUDENTS**

**MODULE CODE : ECON2005**

**ASSESSMENT : ECON2005A  
PATTERN**

**MODULE NAME : Closed Economy Macroeconomics**

**DATE : 16 May 2016**

**TIME : 10:00 am**

**TIME ALLOWED : 2 hours**

This paper is suitable for candidates who attended classes for this module in the following academic year(s):

**2015/16**

**SUMMER TERM 2016**

**ECON2005: Closed Economy Macroeconomics**

**TIME ALLOWANCE: 2 HOURS**

*Answer 2 questions from Part A and 1 from Part B*

*Questions in Part A carry 25 per cent of the total mark each and questions in Part B carry 50 per cent of the total mark each.*

*In cases where a student answers more questions than requested by the examination rubric, the policy of the Economics Department is that the student's first set of answers up to the required number will be the ones that count (not the best answers). All remaining answers will be ignored.*

**PART A**

Answer **both** questions from this section.

- A1.** Use the wage-setting (WS)/ price-setting (PS) model to explain what determines the level of inflation at a particular level of output. Your answer should include a careful description of the foundations of the WS and PS curves.
- A2.** Why is there a zero lower bound (ZLB) on nominal interest rates? Explain under what circumstances the ZLB can constrain monetary policy.

Note: It is not necessary to draw a diagram to score full points.

**TURN OVER**

## **PART B**

Answer 1 question from this section.

**B1.** Use the three-equation model combined with the government debt model to explain the macroeconomic causes and consequences of a government debt crisis **in a closed economy**. Your answer should include

- a) An explanation of how a government debt crisis can arise.
- b) Use of the three-equation model to show the effects of a crisis on the macroeconomy.
- c) A description of policies that can be used to mitigate the effects of the crisis.
- d) Examples drawn from events since 2007.

**B2.** “One of the major questions in applied economics would seem to be the issue as to whether government policies can have a stabilizing role in [an]... economy” (Andrea Boltho)

Explain the theoretical mechanisms by which demand-side policies can stabilise output and the empirical evidence as to the effectiveness of such policies.

Your answer should discuss both fiscal and monetary policy, explaining how they affect output and what determines the size of the effects.

**END OF PAPER**