

# **UNIVERSITY COLLEGE LONDON**

## **EXAMINATION FOR INTERNAL STUDENTS**

**MODULE CODE : ECON6002**

**ASSESSMENT : ECON6002A**  
**PATTERN**

**MODULE NAME : An Introduction to Applied Economic Analysis**

**DATE : 20 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**

**UNIVERSITY COLLEGE LONDON**

**SUMMER TERM 2016**

**ECON6002: AN INTRODUCTION TO APPLIED ECONOMIC ANALYSIS**

**TIME ALLOWANCE: 2 HOURS**  
**CALCULATORS ARE ALLOWED**

*Answer 5 questions from part A and 2 questions from part B.*

*Questions from part A carry 10 per cent of the total mark each and questions from part B carry 25 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**

*For each of the following statements briefly discuss the truth or falsehood of the claims made.*

1. A simple diagram can be drawn to show that if the United States grows 10 million roses for Valentine's Day and that the resources used to grow those roses could have produced 100,000 computers, then, the opportunity cost of those 10 million roses is 100,000 computers.
2. National Income Accounts suggest that if European countries wish to reduce their current account deficits, they must increase their private savings, reduce their domestic investments, or cut their government budget deficits.
3. Europe is uncompetitive because in several European countries private sector wages have been growing faster than productivity.
4. Greece could potentially pull itself out of recession if it were to abandon the Euro-Zone fixed exchange rate system.
5. Environmental campaigns aimed at reducing households' energy consumption should be more comprehensive because a "moral licensing" problem can offset the potential benefits of such campaigns whose principal objective is to prevent further environmental degradation.

**PART B**

6. Carefully explain the theoretical underpinnings of the following empirical finding: "In 1995 output per worker in China in all manufacturing sectors was 5 percent of Germany's but 20 percent for apparel, and recent projections suggest that exports of apparel from China to Germany since the mid-1990s have increased exponentially."

7. In 2008 – 2014 the Federal Reserve Bank in the United States (US) followed an expansionary monetary policy. Deliver a diagrammatic representation of the effects of monetary expansion on the dollar/euro exchange rate and on the interest rates in the US. What is the rationale behind increasing the US interest rate this past December 2015, and why do economists have reservations vis-à-vis the effect of such an interest rate hike on the US economy?
8. After delivering a brief historical account of the main features leading to the Euro-Zone fixed exchange mechanism, carefully explain the theory of optimum currency areas. Is Europe an optimum currency area? Explain your answer.
9. By the turn of the twenty first century, the richest 20 percent of the world's population received 62 percent of the world's income. The gap between rich and poor countries has widened since. Carefully explain this phenomenon through the lens of neoclassical growth theory.
10. China has experienced exceedingly high growth rates which have lifted the income of millions, but in recent years the slowdown of growth in China is attributed to an inevitable and predictable end of "catching-up" growth. Can China reverse the current trend by speeding-up the rate of innovation for enhancing productivity?
11. Evaluate the merits of the following statement through the lens of market failures: "Environmental regulation can trigger innovation which might offset the cost of environmental compliancy." Are there empirical investigations which might lend support to further, well designed, regulation that is consistent with profit maximization?

ECON6002

**END OF PAPER**