

**Answers to Test #2**

A. (1) False. Monopsony is the situation of one buyer, many sellers.

(2) True. 
$$apc = \frac{C}{Y} = \frac{C_0 + C_1 Y}{Y} = \frac{C_0}{Y} + C_1 > C_1 = mpc$$

(also ok to answer false or uncertain if you discuss the special case of  $C_0 \leq 0$ )

(3) False. The money multiplier will decrease as this drains money from the banking system, lessening the multiplier effect

(4) True. The lower cost of production shifts SRAS down.

B. (1) for the present value:  $PV = \$40,000 / (1.05)^{10} = \$24,556.53$

(2) Real is measured in constant dollars, nominal in current dollars.

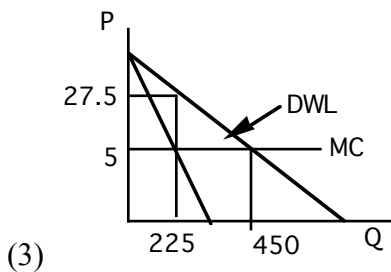
$$\text{real GDP} = \frac{\text{nominal GDP}}{\text{GDP deflator}}$$

(3) Consume more, invest less, so C shifts up and mpc increases, I shifts down.

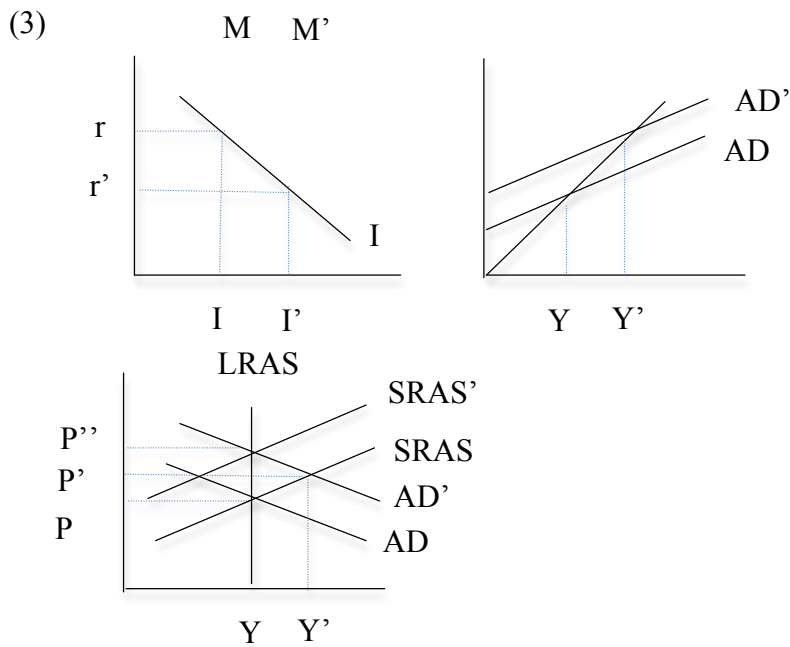
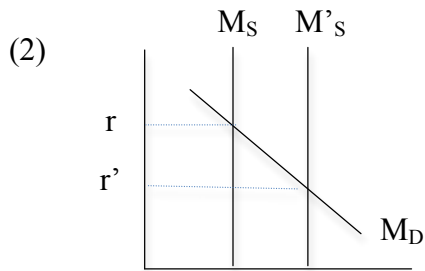
(4) acceptable answer: both AD and AS shift up simultaneously.  
 better answer: AS is vertical; AD shifts up.

C. (1)  $P = 5, Q = 450$

(2)  $P = 27.50, Q = 225$



Assets		Liabilities	
Reserves	\$12,000	Deposits	\$48,000
Loans	\$56,000	Capital	\$20,000
	\$68,000		\$68,000



first AD shifts up, increasing  $Y$  and  $P$  in the short run. Then SRAS shifts up, increasing  $P$  and decreasing  $Y$  back to the LRAS value. Equilibrium is restored at a higher price level.

E. (1) 75,000

(2)  $1/(1 - C_1)$ ; 10

(3) 66,000; 10

(4) 39,473.7; 5.3

(5) a surplus of 1947.4