

## Homework 10

Due on 2/4/2024, by 23:00

This assignment is optional but STRONGLY RECOMMENDED. If you do not submit the answers till the deadline, the score of your final exam will substitute for the score for this assignment. Submit only the correct letter for each task on eLearn under 'Quizzes' within 'COR2100-Economics and Society G7-8-9-10'. Note that the actual text of questions and answers is not supposed to appear on the eLearn quiz. You have unlimited attempts. The system is programmed to credit your last attempt. Be informed that if you submit an attempt and afterwards you re-open the quiz, you must submit your answers AGAIN. Otherwise, the system will grade the unfinished attempt with 0 (because it is the last one) and there is NOTHING I can do to fix this after the fact. Late homework or homework submitted outside eLearn cannot be accepted as this would violate SMU official policy for fairness and transparency in grading. This assignment is protected by Grade Insurance™: If the assignment's average turns out to be below 75, an equal amount of bonus points will be given to every work, for the average to become 75. Direct any homework questions to your TA.

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**Scenario 10.1:** Consider an economy, where  $X = M$ . Household's consumption is  $C = 200 + 0.5(Y - T)$ , private investment  $I$  is 110, government spending is 240 and tax coefficient is 10%.

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1. According to scenario 10.1, how much is the equilibrium output ( $Y$ )?
  - A. Around 200 units.
  - B. Around 400 units.
  - C. Around 600 units.
  - D. Around 800 units.
  - E. Around 1,000 units.
  - F. Around 1,200 units.
2. According to scenario 10.1, how much is the equilibrium consumption ( $C$ )?
  - A. Around 150 units.
  - B. Around 250 units.
  - C. Around 350 units.
  - D. Around 450 units.
  - E. Around 550 units.
  - F. Around 650 units.
3. According to scenario 10.1, how much is the government budget deficit ( $G - T$ ) at equilibrium?
  - A. Around -150 units.
  - B. Around -100 units.
  - C. Around -50 units.
  - D. Around zero.
  - E. Around 50 units.
  - F. Around 100 units.
  - G. Around 150 units.

4. According to scenario 10.1, if the government decreases  $G$  to 150, how much will the equilibrium level of output ( $Y$ ) be?
- A. Around 200 units.
  - B. Around 400 units.
  - C. Around 600 units.
  - D. Around 800 units.
  - E. Around 1,000 units.
  - F. Around 1,200 units.
5. According to scenario 10.1, if the government decreases  $G$  to 150, how much will the equilibrium level of consumption ( $C$ ) be?
- A. Around 150 units.
  - B. Around 250 units.
  - C. Around 350 units.
  - D. Around 450 units.
  - E. Around 550 units.
  - F. Around 650 units.
6. According to scenario 10.1, if the government decreases  $G$  to 150, how much will government budget deficit ( $G - T$ ) be at equilibrium?
- A. Around -150 units.
  - B. Around -100 units.
  - C. Around -50 units.
  - D. Around zero.
  - E. Around 50 units.
  - F. Around 100 units.
  - G. Around 150 units.
7. According to scenario 10.1, if the government increases the taxation coefficient to 20%, how much will the equilibrium level of output ( $Y$ ) be?
- A. Around 100 units.
  - B. Around 300 units.
  - C. Around 500 units.
  - D. Around 700 units.
  - E. Around 900 units.
  - F. Around 1,100 units.
8. According to scenario 10.1, if the government increases the taxation coefficient to 20%, how much will the equilibrium level of consumption ( $C$ ) be?
- A. Around 150 units.
  - B. Around 250 units.
  - C. Around 350 units.
  - D. Around 450 units.
  - E. Around 550 units.
  - F. Around 650 units.

9. If the government in scenario 10.1 increases the taxation coefficient to 20%, how much will the government budget deficit ( $G - T$ ) be at equilibrium?
- A. Around -75 units.
  - B. Around -50 units.
  - C. Around -25 units.
  - D. Around zero.
  - E. Around 25 units.
  - F. Around 50 units.
  - G. Around 75 units.
10. According to scenario 10.1, which policy decreases the budget deficit by sacrificing less output per unit of deficit decreased?
- A. A decrease in  $G$  to 150.
  - B. An increase in  $t$  to 20%.
  - C. Both A and B sacrifice an equal amount of GDP per unit of budget deficit decreased.
11. Which of the following could be a goal of Expansionary Monetary Policy?
- A. To decrease the interest rate.
  - B. To increase private investment.
  - C. To decrease inflation.
  - D. All of the above.
12. Which of the following could be a goal of Contractionary Monetary Policy?
- A. To decrease the interest rate.
  - B. To increase private investment.
  - C. To decrease inflation.
  - D. None of the above.
13. Which of the following would be more suitable for a country with high government debt and high inflation?
- A. Expansionary monetary policy.
  - B. Contractionary monetary policy.
  - C. Expansionary fiscal policy.
  - D. Contractionary fiscal policy.
14. Which of the following is known as “stabilization” policy?
- A. The CB changing the money supply to prevent the interest rate from changing.
  - B. The government increasing  $I$  to counterbalance a decrease in  $C$ .
  - C. The CB selling government securities in order to increase  $M1$ .
  - D. All of the above.
15. Which of the following is most likely to trigger link 2?
- A. A decrease in GDP.
  - B. An increase in investment.
  - C. A decrease in money supply.
  - D. An increase in consumption.

16. Which of the following did NOT take place during the 2007-09 Financial Crisis?
- A. Many people lost their jobs even outside the banking/finance sector.
  - B. Everyone tried to withdraw their deposits from banks.
  - C. Several major financial institutions collapsed.
  - D. A rapid increase in house prices due to speculation.
17. Which of the following is accurate regarding the Greek Debt crisis?
- A. Greece was unable to pay its debt and defaulted on the entire amount.
  - B. Greece went into the longest and deepest recession ever experienced by a developed nation.
  - C. Greece completely recovered after a bailout by the IMF, the ECB and the EU.
  - D. Greece recovered because the ECB conducted expansionary monetary policy.
18. Which of the following is true for the Great Depression?
- A. The second world war helped the US to exit the Great Depression.
  - B. Commercial banks speculated in the stock market.
  - C. Companies overestimated the demand for their products.
  - D. All of the above.
19. Country A has 80% Debt/GDP ratio and country B has 135% Debt/GDP ratio. Yet, investors prefer country's B government bonds over those of country's A. Which of the following may be the reason?
- A. Country B takes on debt for investment, while country A mainly for consumption.
  - B. Country B is smaller.
  - C. Country B has higher inflation.
  - D. All of the above.
20. Which of the following is most likely to happen if the CB allows the interest rate to fluctuate freely with the daily changes in money demand?
- A. S-R fluctuations in the economy will be more intense.
  - B. Unemployment will be higher.
  - C. GDP will be lower.
  - D. Consumption will be lower.

*Good afternoon! As we approach the end, I would like to share some valuable lessons that I have learned through expensive experiences. I am not sure if they will be of any use to you but... you never know. The order is random: (1) Cherish the moments and those around you before they become memories. People and moments sometimes leave us without notice. (2) If you choose to do something, do it well or don't do it at all. Life is too short to waste it in mediocre shit. (3) The only person you need to be competing with is your yesterday's self. (4) You cannot be a Gentleman or a Lady only 'sometimes' or only to 'some'. You either are or you are not and the choice is yours. (5) Giving your best matters more than winning. (6) If somebody makes your life difficult, they are either a jerk or maybe they care for you. In most cases, it's the former, but it's worth exploring to see if it's the latter. (7) The right path is always uphill. (8) Only a foolish person takes pride in something they did not contribute to achieving. (9) Only losers succeed always because they never take on difficult challenges. (10) The journey matters more than the destination but who you are traveling with matters even more. (11) Those who give you advice will not be there to share the cost if you fail. (12) If everyone around you gives you the same advice, listen to them. Then, try to prove them wrong. It is your life. Live it as you want. (13) If everyone around you tells you what you want to hear, start looking for some real friends. (14) If something can be counted (money, likes, views, sexual partners, cars, houses etc.) it doesn't have any real value. Kosmas*