

**SECTION [1] MULTIPLE CHOICE QUESTIONS [20%]**

**INSTRUCTIONS:**

- 1- ANSWER ALL QUESTIONS.
- 2- EACH QUESTION IS WORTH TWO MARKS.

- 1) ) Fiscal policy is defined as changes in \_\_\_\_\_ and \_\_\_\_\_ to achieve macroeconomic objectives such as price stability, high rates of economic growth, and high employment.
- A) taxes; expenditures
  - B) interest rates; money supply
  - C) taxes; the money supply
  - D) taxes; interest rates
- 2) The multiplier effect exists because a change in autonomous expenditure
- A) leaves the economy in the form of imports.
  - B) leads to changes in income, which generate further spending.
  - C) will undergo its complete effect in one round.
  - D) prompts further exports.
- 3) If the economy is growing beyond potential real GDP, which of the following would be an appropriate fiscal policy to bring the economy back to long-run aggregate supply? An increase in
- A) the money supply and a decrease in interest rates.
  - B) oil prices.
  - C) taxes.
  - D) government purchases.
- 4) Saving equals
- A) disposable income minus consumption expenditure.
  - B) consumption expenditure minus disposable income.
  - C) disposable income plus consumption expenditure.
  - D) disposable income minus taxes
- 5) Long-run macroeconomic equilibrium occurs when
- A) structural and frictional unemployment equals zero.
  - B) output is above potential GDP.
  - C) aggregate demand equals short-run aggregate supply and they intersect at a point on the long-run supply curve.
  - D) aggregate demand equals short-run aggregate supply.
- 6) If the Central Bank and the government agree to apply expansionary policies simultaneously, what will be the unwanted effect?
- A) severe deflation
  - B) very high inflation
  - C) very high unemployment
  - D) very low unemployment

7) If the multiplier is 6 and exports decrease by \$30, what impact will that have on aggregate expenditure?

- A) decrease by \$180
- B) increase by \$180
- C) increase by \$30
- D) decrease by \$30

8) The level of aggregate supply in the long-run is *not* affected by

- A) changes in technology.
- B) changes in the number of workers.
- C) changes in the capital stock.
- D) changes in the price level.

9) An increase of the tax on business income will reduce aggregate demand because

- A) consumption spending will fall
- B) government spending will fall
- C) investment spending will fall
- D) wages will increase

10) When the price level in Kuwait rises relative to the price level of other countries, \_\_\_\_\_ will fall and \_\_\_\_\_ will fall.

- A) exports; imports
- B) exports; net exports
- C) imports; net exports
- D) net exports; imports

**SECTION [2] PROBLEM SOLVING [60%]**

**INSTRUCTIONS:**

- 1- ANSWER ALL QUESTIONS.
- 2- EACH QUESTION IS WORTH SEVEN AND HALF MARKS WITH TOTAL FIFTEEN MARKS FOR EACH PROBLEM.

**Problem 1 (15%)**

Government plans to apply fiscal policy in 2017.

Year	Actual Real GDP	Potential GDP	Price Level
2016	KD 16.0 billion	KD 16.0 billion	100
2017	KD 16.4 billion	KD 16.0 billion	105

Answer the below questions:

1. Which fiscal policy will be applied? Calculate by how much government should change taxes to reach equilibrium, if tax multiplier is equal to **-2** in this economy.
  
2. Will increase in Government purchases be a good decision? Why? **Explain** the mechanism.





**Problem 4 (15%)**

AE	GDP
8520	8400
8680	8600
8840	8800
9000	9000
9160	9200
9320	9400
9480	9600

1) Calculate, MPC and MPS and the multiplier.

2) If the government wants a new equilibrium at 12.000 by how much it needs to increase the government expenditures.

