PART I

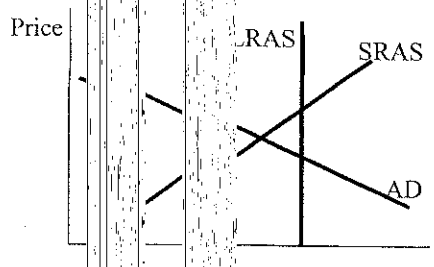
i. MULTIPLE CHOICE (單選題) (30 points)

1. Consumption spending is spending by _____ households on final goods and services produced _____.
   A) domestic and foreign; domestically and abroad
   B) domestic and foreign; domestically and abroad
   C) domestic; domestically
   D) domestic and foreign; domestically

2. If the stock market booms and people feel wealthier, then the real interest rate _____ and investment _____.
   A) rises; declines
   B) falls; increases
   C) rises; increases
   D) rises; declines

3. If a Taiwanese company exports $2 million of computers to Thailand and Taiwanese tourists spend $2 million at Thai beaches, then the Taiwanese merchandise trade balance _____, and the Taiwanese capital and financial account balance _____.
   A) rises; rises
   B) rises; is unchanged
   C) is unchanged; is unchanged
   D) is unchanged; rises

4. A developing country does not have enough taxes to cover its expenditures and is unable to borrow. This government would be most likely to cover its deficit by
   A) printing government bonds from the public.
   B) selling government bonds to the public.
   C) selling newly issued government bonds directly to the central bank.
   D) buying newly issued government bonds directly from the central bank.



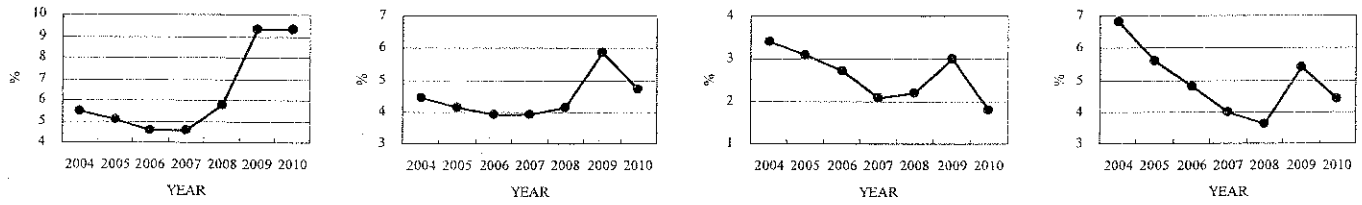
(Note: LRAS: long-run aggregate supply; SRAS: short-run aggregate supply; AD: aggregate demand)

5. In the above figure, which fiscal policy could help move the economy to long-run equilibrium GDP?
   A) Increasing government purchases and increasing taxes.
   B) Increasing M2.
   C) Increasing government purchases and decreasing taxes.
   D) Either B and C are correct.
   E) None of the above answers is correct.

6. Large differences in inflation rates among countries are almost always the result of large differences in
   A) productivity.
   B) real income growth.
   C) growth rates of real money demand.
   D) the growth rates of nominal money supplies.

7. Which of the following macroeconomic variables would you *exclude* from an index of leading economic indicators?
   A) Real money supply
   B) Unemployment rates
   C) Planned investment
   D) Residential investment

8. If the CPI is 95, this means that
   A) prices are 95 percent lower than in the reference base period.
   B) prices are 0.95 times lower than in the reference base period.
   C) prices are 5 percent lower than in the reference base period.
   D) real GDP will be less than nominal GDP.



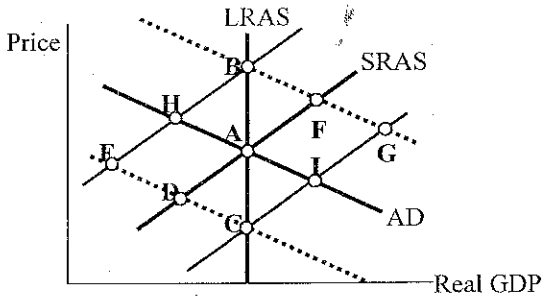
A)　　B)　　C)　　D)

9. Which of the figures above represents the unemployment rates of Taiwan during 2004-2010?

10. Compared to a system of fixed exchange rates, currency unions are beneficial because they
A) reduce the costs of trading goods and assets.
B) allow every country to have an independent monetary policy.
C) allow exchange rates to float.
D) restrict what countries can do with fiscal policy.

SHORT-ANSWER QUESTIONS (5 points)

11. Given the figure in the right side, suppose the economy is at point A. Now if the country experiences an increase in energy costs and thus the central bank undertakes a monetary policy in response to the event which targets to mitigate the possible impact on GDP, most likely the economy will end up moving to point _____.



12. If the central bank fears inflation, it will undertake an open market _____ (sale/ purchase) of securities, which will shift the aggregate demand curve _____ (leftward/rightward). In an open economy under floating exchange rate system, the above open market operation causes the value of domestic currency to _____ (fall/rise) on the foreign exchange market and thus the aggregate demand _____ (increases/decreases).

ii. ESSAY QUESTIONS (15 points)

1. Consider the following prices for government bonds and foreign exchange in Taiwan and the United States. Assume that both government securities are one-year bonds, paying the face value of the bond one year from now. The exchange rate *e* stands at 1 dollars ($) = 29.5 New Taiwan Dollars (NTD). The face values and prices on the two bonds are given by

		Face Value	**Price**
Taiwan	1-year bond	NTD 30,000	NTD 28,841
United States	1-year bond	$1,000	$971

(1) Compute the nominal interest rate on each of the bonds.
(2) Compute the expected exchange rate next year if interest rate parity holds.
(3) If you expect the dollar to depreciate relative to the NTD, which bond should you buy? Why?

2. You may have noticed that the dollar depreciated since the famous financial tsunami in 2008. It has been well recognized that the American government was behind this change. (1) What would you consider as the most likely cause of this depreciation in the exchange rate and explain how it works? (2) What impacts will it have on the country's trading partners and its foreign creditors?

Part II:

i. **Multiple-choice questions (5 points each)** (單選題)

1. Suppose Eddie's demand curve for text messages is T=150-500Pt, where T stands for the number of text messages and Pt represents the price of text messages. What is Eddie's consumer surplus if Pt = $.10 per message?
   A. $5
   B. $10
   C. $20
   D. $50

2. A firm has increasing returns to scale if
   A. A proportional change in the use of all inputs produces a more than proportional change in output
   B. A proportional change in the use of all inputs produces a less than proportional change in output
   C. A proportional change in the use of all inputs produces the same proportional change in output
   D. An increase in capital leads to an increase in output

3. Equilibrium in a repeated one-stage game
   A. Requires cooperation
   B. Does not require cooperation
   C. Can only be found if the game is finite
   D. Can only be found if the game is infinite

4. Suppose milk and cereal are compliments and the demand for milk is $Q_m^d = 40 - 6P_m - 2P_c$, where Q_m^d stands for millions of gallons of milk demanded, P_m stands for the price of milk and P_c stands for the price of cereal. The supply of milk is $Q_m^s = 6P_m - 8$, where Q_m^s stands for millions of gallons of milk supplied. The demand and supply of cereal are $Q_c^d = 90 - 5P_c - P_m$ and $Q_c^s = 5P_c - 10$, respectively, where Q_c^d stands for millions of boxes of cereal demanded and Q_c^s stands for millions of boxes of cereal supplied. Suppose the government imposes a $2.00 per gallon tax on milk. In the new general equilibrium
   A. The price of both milk and cereal increase
   B. The price of milk increases and the price of cereal decreases
   C. The price of milk decreases and the price of cereal increases
   D. The price of both milk and cereal decrease

5. Suppose Br[illegible]n's indifference curves are defined as $C = \frac{3}{4}\sqrt{F_S} + \frac{1}{4}\sqrt{F_R}$, where C is a constant, F_S [illegible]onsumption during sunny weather and F_R is consumption during a hurricane. Further sup[illegible] Brandon receives 64 units of food when it is sunny and 16 units when there is a hurrica[illegible] the probability of sunshine is P=0.75, expected food consumption is
   A. 28
   B. 40
   C. 52
   D. 80

6. What is the [illegible]inty equivalent of the bundle described in question 5?
   A. 49
   B. 52
   C. 7
   D. 25

7. A good is n[illegible]al if
   A. There is [illegible]ay to prevent a person from consuming or using it
   B. More tha[illegible]e person can consume it at the same time without affecting its value to others
   C. Consump[illegible] of it involves perfect rivalry
   D. Consump[illegible] is completely excludable

8. Four stores [illegible] a problem with theft and security is a public good. Let S stand for the number of p[illegible]n-hours of security patrols per week. The marginal benefit of security patrols to each of th[illegible]ores is given by the formula $MB = 200 - 2S$. Patrols cost $25 per hour. If each store p[illegible]ded security independently, how much would each store provide (rounded to the nearest [illegible]e number)?
   A. 88 perso[illegible]urs of patrols per week
   B. 168 pers[illegible]ours of patrols per week
   C. 22 perso[illegible]rs of patrols per week
   D. 97 perso[illegible]rs of patrols per week

ii. **Essay question[illegible] (points)**

Discuss the rela[illegible]hip between inequality and individual welfare.