

Answers

Part I.

1.D 2. D 3. 2 4. F 5.D 6.T 7.D 8.D 9. 2/menu costs
10 – 20 (not covered in exam 1)

Part II.

1. a.4(%) b.Sp=1600 c.r=8%, I=1200, C no change
2.
 - a. Real wage (W/P) declines as MPL declines (due to lower capital stock) and the labor demand shifts to the left.
 - b. Real income (Y) declines due to lower capital stock.
 - c. The real interest rate (r) rises as national saving falls due to lower real income.
 - d. The price level (P) rises as real income falls with no change in money supply of the velocity of money
3. (not covered in exam 1)