Section B: Short Answer (30 marks)

6. Define the term "aggregate demand" and briefly explain what factors can cause it to shift.

Answer:

7. Describe the concept of the "Phillips Curve" and its implications for policymakers.

Answer:

8. Explain the difference between the classical and Keynesian views of macroeconomics.

Answer:

Section C: Essay Questions (50 marks)

9. Discuss the role of monetary policy in controlling inflation and stabilizing the economy. Provide examples to support your argument.

Answer:

4. What are the causes of unemployment?

* There are many causes of unemployment, but some of the most common include:

  * A recession or economic slowdown

  * Structural changes in the economy, such as the decline of manufacturing

  * Technological change

  * Demographic changes, such as an aging population

  * Government policies, such as minimum wage laws

5. What are the different types of inflation?

* There are two main types of inflation: demand-pull inflation and cost-push inflation.

  * Demand-pull inflation is caused by an increase in aggregate demand, while cost-push inflation is caused by an increase in aggregate supply.

Section C: Essay Questions (20 marks)

1. Discuss the different policies that can be used to control inflation.

* There are a number of policies that can be used to control inflation, including:

  * Monetary policy: The central bank can increase or decrease interest rates to cool down the economy and reduce inflation.

* 2. The classical theory of output and employment states that
    * A. output is determined by aggregate demand.
    * B. output is determined by aggregate supply.
    * C. output is determined by the intersection of aggregate demand and aggregate supply.
    * D. output is always at full employment.
    * Answer: D. The classical theory states that the economy will always self-correct to full employment.
* 3. The Keynesian theory of income determination states that
    * A. output is determined by aggregate demand.
    * B. output is determined by aggregate supply.
    * C. output is determined by the intersection of aggregate demand and aggregate supply.
    * D. output is always at full employment.
    * Answer: A. The Keynesian theory states that output is determined by aggregate demand, which is influenced by factors such as government spending, investment, and consumption.
* 4. The consumption function is the relationship between
    * A. consumption and income.
    * B. investment and income.
    * C. savings and income.
    * D. interest rates and income.
    * Answer: A. The consumption function shows how consumption spending changes as income changes.
* 5. The marginal propensity to consume (MPC) is
    * A. the change in consumption divided by the change in income.
    * B. the change in income divided by the change in consumption.