1. (10 pts) Macro Equilibrium --- Let $Y_e = 500 + 5(G-T) + 20(Ms)$, $Y_F = 1000$, $G = 400$, $T = 350$, and $Ms = 20$

2. a. $Y_e = 1150$

2. b. Is this economy in a bubble or in a recession? Explain. 

2. c. Draw a “Phillips curve” and show CLEARLY where this economy is on that Phillips curve. Is inflation high or low? Is unemployment high or low?

2. d. $20$

2. e. $\frac{200 + 37.5\%}{500 + 250 + 20(m)} = 1000$ 

3. Interest rates and Present Value (4 pts)

3. a. $\frac{3.2}{(1.06)^5} = 1.77$

3. b. $\frac{500 + 400 + 1000}{1.08} = 2037$

4. Money (4 pts) In our country, consumers have $400 in their checking accounts and $950 in their savings accounts. They also have $150 of cash in their pockets and at home as well as $300 worth of gold and $450 in near banks (credit unions, etc.) Consumers have credit card balances outstanding of $600. Businesses have $800 of cash in their cash registers, checking accounts of $1200 and savings accounts of $550. Banks have $2500 of cash inside their vaults. Total stocks/shares in companies) are worth $3000 and total bonds outstanding are $3500.

4. a. $M1 = 2550$

4. b. $M2 = 3500$

5. Open market operations. (9 pts) The demand for loanable funds is 90-200r and the supply is 60+300r (Q in billions).

5. a. $6$

5. b. $185.538 .36$

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b. The central bank thinks the interest rate should be 8%.

What will be the “reserve bid price” of a three month $1 million T-bill?

Will the central bank be printing money or “eating” money?

How many dollars worth of T-bills with the central bank buy or sell?

6. (14 pts) Comparative Advantage
In one day the workers on island A can gather up to 60 coconuts or 20 fish. (Assume constant opportunity costs). On island B, workers can gather 90 coconuts or 180 fish. Assume people like to have equal numbers of coconuts and fish.

Before trade, how many coconuts and fish are gathered on island A?

Before trade, how many coconuts and fish are gathered on island B?

c. Draw a world production possibility curve (Coconuts on the Y-axis)

If people on the two islands are going to trade with each other, how many coconuts and fish will be gathered on island A?

On island B?

After trade, how many coconuts and fish will be consumed on island A?

After trade, how many coconuts and fish will be consumed on island B?

7. (5 pts) Let the international market for Canadian dollars be: \( Q_d = 300 - 60e \), \( Q_s = 120 + 90e \) (e is US $ per Can $)

What is equilibrium e?

The central bank wants the e to be 1.3(US$ per C$). Will the Bank of Canada be buying or selling foreign reserves?

How many dollars worth of foreign reserves will the Bank of Canada be buying or selling?