**NOTE:** these questions are representative of what you can find in the actual exam. To successfully pass the exam you are required to study all the chapters of the textbook indicated in the syllabus.

**PART 1. State if the following statements are TRUE or FALSE, and MOTIVATE your answers.**

Q1. (5 Points) The composition of GDP. In an open economy the main components of GDP are aggregate consumption, investment and government spending (2 pts). Investment represents only purchases of plants and machines by firms (3 pts).

Q2. (5 points) Equilibrium in the financial market. The FED fund rate is determined by the condition money demand = money supply in a setting in which demand for money demand = demand for currency.

Q3. (5 points) The IS-LM model. An increase in taxes shifts the IS to the left reduces output and increase interest rate.

Q4. (5 points) In the U.S. starting from the 1970's inflation has been on average zero and the original Phillips curve is a good approximation of the relation between change in inflation and change in output.

**PART 2. Answer the following question.**

Q5 (10 points) The IS-LM model. Answer the question with words, graphs and equations (when necessary). Remember to always define variables and label axes of graphs.

(4 points) Derive the LM curve from the equilibrium in the financial markets.

(3 points) Graph the IS-LM model and describe the IS relation.

(3 points) Use the model to describe the short-run effects of increase in nominal money supply.