

※ 考生請注意：本試題不可使用計算機。請於答案卷(卡)作答，於本試題紙上作答者，不予計分。

1. Japan has been experiencing severe economic recession since the 1990's. Shinzō Abe (安倍晉三) was re-elected as Japanese Prime Minister in December 2012. In his second term of service, Abe announced so called "Abenomics" to stimulate the Japanese economy.
 - (a) Abenomics was based on "three arrows" of macroeconomic reforms. What are the three arrows? Explain briefly. (10 points)
 - (b) To what extent have monetary policy and fiscal policy been able to limit the severity of the Japanese Slump? Illustrate your answer with the aid of graphs, if necessary. (10 points)

2. A monopolistically competitive firm prices its product using the markup pricing formula $P = (1+m)MC$, where MC is the marginal cost of producing an additional unit and m is the markup ratio ($m = 0.2$). Suppose the demand for the firm's product is given by $Q = 1000 - 0.2P$, so the revenue from selling Q units of the product is $PQ = 1000P - 0.2P^2$.
 - (a) If the marginal cost of producing each unit of the product is \$2,000, calculate the price of the product, the quantity produced, and the firm's revenues, costs, and profits. (5 points)
 - (b) Now suppose the marginal cost rises to \$2,500 due to the enforcement of "Five-Day Work Week Law" (一例一休). The firm can keep the price of the product unchanged, or it can change the product's price at a cost of \$50,000 for catalogue reprints. Calculate the price, quantity, revenues, costs, and profits as in part (a) both for changing the price and leaving the price unchanged. (15 points)
 - (c) In (b), should the firm change the price of its product? Explain. (3 points)

3. The effort of a firm's workers depends on their real wage according to the following schedule.

Real Wage	Effort (E)
14	10
15	13
16	19
17	22
18	25
19	27
20	30
21	31

The marginal product of labor is $MPN = E(400 - 4N)/30$.

- (a) What is the efficiency wage? (3 points)
- (b) How many workers will the firm hire? (3 points)
- (c) Suppose an adverse productivity shock reduces the marginal product of labor to $MPN = E(280 - 4N)/30$. How would your answers to parts (a) and (b) change? (4 points)

4. Answer the following questions:

- (a) Describe the differences between classical and Keynesian economists in terms of their views about monetary neutrality. How the differences affect their conclusion of monetary policy. **(12 points)**
- (b) What do Monetarists believe about the slope of the IS and LM curves and why? What do these beliefs imply about the effectiveness of monetary policy? **(10 points)**

5. Suppose the Central Bank's short-run response to any change in the economy is to change the money supply to maintain the existing real interest rate. Illustrate your answer with the aid of graph(s) for the following questions:

- (a) What would happen to money supply if there were a reduction in government purchases? Given the Central Bank's policy, what would happen in the very short run (before general equilibrium is restored) to output and the real interest rate? **(5 points)**
- (b) What must happen to the LM curve and the price level to restore general equilibrium? **(4 points)**
- (c) Does targeting the money supply become more or less effective if money demand is highly interest rate elastic? Use a graph to explain your intuition. **(6 points)**

6. Suppose the domestic and foreign interest rates are both initially equal to 2%. Now suppose the foreign interest rate rises to 3%. Explain what effect this will have on the exchange rate. Also explain what must occur for the interest parity condition to be restored. **(10 points)**