

ENGINEERING TRIPOS PART IIB
ENGINEERING TRIPOS PART IIA

Tuesday 27 April 2004 9.00-10.30

Module 4E13

MACROECONOMICS

Answer not more than two questions.

All questions carry the same number of marks.

*The **approximate** percentage of marks allocated to each part of a question is indicated in the right margin.*

There are no attachments.

You may not start to read the questions
printed on the subsequent pages of this
question paper until instructed that you
may do so by the Invigilator

(TURN OVER

1. (a) What are the main components of national income? [10%]
(b) What factors determine the aggregate level of investment in the macroeconomy? [50%]
(c) Evaluate the impact of the following on the level of consumption in the macroeconomy:
 - (i) an increase in income tax [20%]
 - (ii) a reduction in the retirement age [20%]

2. (a) Explain the concept of comparative advantage. [40%]
(b) Evaluate the impact of the following on a country's trade balance:
 - (i) an overvalued exchange rate [30%]
 - (ii) a slowdown in world economic growth [15%]
 - (iii) the adoption of tariffs by trading partners [15%]

3. (a) What are the main factors that cause business cycles? [30%]
(b) In what ways can economic policy be used to reduce the amplitude of business cycles? [20%]
(c) What are the main determinants of long-run economic growth? [30%]
(d) In what ways can economic policy be used to increase the rate of long-run economic growth? [20%]

4. (a) Discuss the economic arguments for European Monetary Union (EMU). [35%]
(b) Discuss the economic arguments against EMU. [35%]
(c) Evaluate the possible impact on the UK economy of joining EMU. [30%]

END OF PAPER