

1. The expression “business cycle” refers to
  - (a) the ups and downs of the trade deficit.
  - (b) the ups and downs of the inflation rate.
  - (c) the changes in the firms’ profits.
  - (d) None of the above
2. The peaks and troughs of a lagging variable tend to occur
  - (a) at about the same time as the peaks and troughs of the business cycle.
  - (b) later than the peaks and troughs of the business cycle.
  - (c) before the peaks and troughs of the business cycle.
  - (d) None of the above
3. Loosely speaking, Okun’s law relates
  - (a) the unemployment rate to GDP.
  - (b) the inflation rate to the unemployment rate.
  - (c) the inflation rate to the interest rate.
  - (d) GDP to the exchange rate.
4. The Phillips curve does not refer to
  - (a) the inflation rate.
  - (b) the real exchange rate.
  - (c) the unemployment rate.
  - (d) None of the above
5. Which reasoning cannot contribute to justify a downward-sloping aggregate demand function?
  - (a) A falling inflation rate increases the purchasing power of money and that stimulates consumption.
  - (b) A rising inflation rate erodes competitiveness and that causes a drop in net exports.
  - (c) When the inflation rate grows, the central bank raises the interest rate, which tends to reduce investment.
  - (d) None of the above
6. The macroeconomic equilibrium is given by
  - (a) the inflation rate and the unemployment rate.
  - (b) the real GDP and the unemployment rate.
  - (c) the real GDP and the inflation rate.
  - (d) the real interest rate and the real exchange rate.
7. A negative shock to the aggregate supply function on the inflationary region generates
  - (a) a rise in the inflation rate and a fall in real GDP.
  - (b) a fall in the inflation rate and a fall in real GDP.
  - (c) a rise in the inflation rate and a rise in real GDP.
  - (d) a fall in the inflation rate and a rise in real GDP.
8. Which sentence is not false?
  - (a) Policies that improve the productive capacity of the economy constitute examples of demand-side policies.
  - (b) Monetary policy is an example of a supply-side policy.
  - (c) According to the quantity equation the higher the government budget deficit, the larger the crowding out effect on private expenditure.
  - (d) The classical dichotomy expresses a view on the relationship between real variables and nominal variables.
9. A positive shock to the aggregate demand function on the non-inflationary region of the aggregate supply function causes
  - (a) a rise in the inflation rate and a fall in real GDP.
  - (b) a fall in the inflation rate and a fall in real GDP.
  - (c) a significant rise in the inflation rate and a rise in real GDP.
  - (d) essentially, only an increase in real GDP.
10. The expenditure multiplier effect refers to the idea that
  - (a) an initial exogenous increase in the inflation rate leads to an increase in the interest rate that further increases the inflation rate, that further increases the interest rate, that further increases the inflation rate...
  - (b) the tax revenue is always a multiple of the money stock.
  - (c) when the economy is booming, the inflation rate becomes a procyclical variable.
  - (d) an initial exogenous increase in aggregate demand leads to an increase in income that further increases aggregate demand, that further increases income, that further increases aggregate demand...
11. The basic rule of economic policy asserts that
  - (a) there is no basic rule of economic policy.
  - (b) policymaking based on rules is better than policymaking based on discretionary measures.
  - (c) temporal inconsistent policies are not credible.
  - (d) None of the above
12. An example of a policy rule is given by
  - (a) Okun’s law.
  - (b) the Laffer curve or the rule of 70.
  - (c) Taylor’s rule.
  - (d) the Phillips curve.
13. Which combination of measures cannot give rise to a contractionary fiscal policy?
  - (a) The tax rate is lowered and the government expenditure is increased.
  - (b) The central bank sells financial assets.
  - (c) The tax rate is raised and transfers are increased.
  - (d) None of the above
14. Which sentence is not true?
  - (a) Monetizing the budget deficit does not mean that the government increases the tax rate to raise more revenue.
  - (b) The crowding out effect takes place when the central bank buys financial assets.
  - (c) An expansionary fiscal policy causes, at least initially, an increase in aggregate demand.
  - (d) The empirical evidence suggests that, in general, the higher the degree of independence of a central bank with respect to the government, the smaller the inflation rate of the economy.
15. Which rate is not set by the European Central Bank?
  - (a) The interest rate on the marginal lending facility.
  - (b) The interest rate of the main refinancing operations when they are executed in the form of a fixed rate tender.
  - (c) The Euribor
  - (d) None of the above

Write your answers in minuscule letters · No answer: no penalty · Wrong answer: -1/3 of the value of a correct answer · Points: 40%

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
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ID number (DNI, NIE...) \_\_\_\_\_ 1st Surname \_\_\_\_\_ Name \_\_\_\_\_

1. [20%] Explain the meaning of the following terms or concepts.

[2%] Eurosystem

[2%] Macroeconomic equilibrium

[2%] Coincident variable

[2%] Phillips curve

[2%] Slumping economy

[2%] Temporally inconsistent policy

[2%] Supply-side policy

[3%] The exchange rate channel of monetary policy

[3%] Crowding out effect

2. [4%] Using the version of the quantity equation expressed in rates of change, find the inflation rate if the velocity of money remains constant, the real GDP increases by 2%, and the money stock increases by 7%.

3. [4%] Using the simple version of Taylor's rule, explain if having the inflation rate above the target inflation rate leads the central bank to (by modifying the nominal interest rate) set the real interest rate above, below, or at the same level as the economy's long-term real interest rate.

4. [6%] Policymakers in the US want the US economy to boom. Explain if the fact that the eurozone is already booming contributes positively or negatively to achieve that goal.

5. [16%] In his *Response to the Paradoxes of Malestroit* (1568), the French political philosopher Jean Bodin (1530–1596) states the following: "In my opinion, several causes lay behind the increase in prices that we have witnessed. The main and almost unique cause (one that nobody has referred to previously) is the abundance of gold and silver, which is greater in this kingdom than it has been in the last 400 years. The second cause is due in part to monopolies. The third cause is scarcity, which is caused both by the export trade and by waste. And there is also the luxurious consumption by the kings and the nobles, who raise the price of fashionable goods." Analyze in the AS-AD model, or by means of equations presented in the course, the impact on the inflation rate of each the four causes listed by Bodin (analyze each cause independently of the rest of causes).

6. [10%] Taking for granted that students report their opinions honestly, each academic year the university invites students to fill in a questionnaire to assess the teachers' performance. Before the 2010-11 academic year teachers were informed of the students' assessment after the end of the academic year. In the current 2010-11 academic year the questionnaire must be filled in at the moodle website and the teacher can know the students' opinions even before he or she marks the students. Why is Goodhart's law relevant to this situation? In particular, do students have an incentive to report truthfully their opinions under the new evaluation policy? Would you recommend going back to the traditional evaluation policy? If so, why? If not, why not?