1. The business cycle refers to the fact that
(a) a procyclical variable is always a lagging indicator.
(b) Okun's law relates changes in the inflation rate to changes in the unemployment rate.
(c) a recession is a self-sustained contractionary phenomenon while an expansion is not a self-sustained booming phenomenon.
(d) None of the above

2. Which sentence is not false?
(a) The Eurocoin is sometimes a leading indicator and sometimes a countercyclical variable.
(b) Consumption is typically a procyclical variable.
(c) It is an empirical regularity that the period of time between peak and trough of a business cycle is equal to the period of time between trough and peak.
(d) The expression "business cycle" is synonymous with the expression "Phillips curve".

3. Consider the equation $\Delta u = 1 - y/2$, where Δu is the change in the unemployment rate and y is the rate of growth of real GDP. This equation
(a) is an example of a Phillips curve.
(b) does not mean that if the rate of growth of real GDP increases by 4 per cent points, the unemployment rate increases by 2 per cent points.
(c) is an example of an aggregate demand function.
(d) implies that, when there is no change in real GDP, the unemployment rate goes up by two per cent.

4. According to the AS-AD model, a fall in the inflation rate could occur if
(a) the price of imported energy (like oil) rises and real GDP in the rest of the world declines.
(b) there is a surge in the arrival of immigrants and 50% of all the firms close down.
(c) unemployment reaches historical hights and, at the same time, the government places a tax, on all the firms, that increases with the number of employees of a firm.
(d) None of the above

5. In which case all the events indicated tend to modify aggregate demand in the same direction?
(a) The nominal interest rate falls (with the expectation that the inflation rate will remain constant) and the number of firms rise.
(b) The foreign inflation rate rises and domestic financial wealth falls.
(c) The nominal exchange rate increases and businessmen expect an increase in aggregate demand in the near future.
(d) None of the above

6. The expenditure multiplier effect
(a) states that inflationary expectations multiply the inflation rate so that the economy moves faster from the inflationary region to the non-inflationary region than vice versa.
(b) captures the idea that increases in income lead to increases in consumption which, in turn, lead to increases in aggregate demand and further increases in income.
(c) is exactly the same effect as the money multiplier effect: more money generates more expenditure and more expenditure creates more money.
(d) cannot take place if the economy reacts to an increase in aggregate expenditure by altering both the inflation rate and real GDP.

7. Which sentence is not true?
(a) Stagflation does not mean that the inflation rate remains stagnant.
(b) It is likely that changes in the inflationary expectations will alter the macroeconomic equilibrium.
(c) The above two sentences are true.
(d) A macroeconomic equilibrium is solely a value for the inflation rate such that aggregate supply and aggregate demand coincide at that value of the inflation rate.

8. In the AS-AD model, domestic real GDP tends to grow if
(a) foreign real GDP and foreign inflation rate both grow.
(b) foreign real GDP falls and the domestic currency appreciates.
(c) the economy moves from the AS inflationary (but not hyperinflationary) region to the non-inflationary one.
(d) None of the above

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Write your answers in minuscule letters in only one of the following tables

No answer: +0 · Correct answer: +1 · Incorrect answer: −1/3

1

1	2	3	4	5	6	7	8

No answer: +0 · Only one answer: if correct, +1; if incorrect, −1/3.
Two answers: if one correct, +1/2; if none correct, −1/2.

2

1	2	3	4	5	6	7	8

T5
DNI Number _____ 1st Surname _____ Name _____