Introduction to Macroeconomics · M5 · 24 March 2014

1. What event does not tend to rise the equilibrium interest rate in the liquidity market model with an upward sloping supply of liquidity function?

- (a) A contractionary open market operation
- (b) An increase in the amount of financial assets that households would like to sell.
- (c) An increase in the amount of reserves that banks are legally required to hold at the central bank.
- (d) None of the above

2. A fixed rate tender with full allotment is

- (a) an example of the Fisher effect.
- (b) sometimes an instance of the phenomenon called "securitization" and sometimes a government purchase.(c) a way of conducting open market operations.
- (d) an illustration of the fallacy of composition when there are arbitrage opportunities in the presence of a negative discount factor.

3. As an immediate effect, an expansionary open market operation tends to increase the

- (a) nominal interest rate.
- (b) monetary base.
- (c) reserve ratio.

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(d) amount of financial assets that banks purchase from the central bank.

- 4. The idea that money is exogenous means that the
- (a) real interest rate may be negative.
- (b) central bank has a strong control over the money stock.
- (c) liquidity and reserve ratios are both constant.
- (d) None of the above

5. Which sentence is not false?

- (a) If the real interest rate equals the inflation rate, then the nominal interest rate is zero.
- (b) If the government budget runs a surplus and there is a trade deficit, then investment I equals savings S.
- (c) With a positive nominal interest rate, the present discounted value of x > 0 euros is smaller than x.
- (d) If the money multiplier increases, then the bank reserves also increase.

6. What combination of events could not explain a fall in the equilibrium interest rate in the liquidity market model with an upward sloping supply of liquidity function?

- (a) Several important banks go bankrupt and the central bank conducts an expansionary open market operation.
- (b) The government budget deficit grows and the central bank reduces the reserve requirements.
- (c) Firms increase the amount of financial assets they would like to buy whereas households reduce the amount of financial assets they would like to sell.
- (d) None of the above

The maximum score (5 points) is obtained by answering five questions correctly

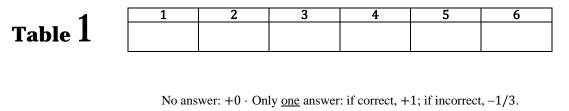
If six questions are answered, evaluation will be with respect to a maximum score of 5 points

Write your answers in minuscule (lower case letter) in only one of the following tables No mark given to those not respecting these instructions

Use Table 1 if you give at most one answer to each question

Use Table 2 if you want to give two answers to some question

No answer: $+0 \cdot \text{Correct}$ answer: $+1 \cdot \text{Incorrect}$ answer: -1/3



<u>Two</u> answers: if one correct, +1/2; if none correct, -1/2.

Table 2	1	2	3	4	5	6