

Introduction to Macroeconomics · M5 · 2013-14

Multiple choice questions for Problem Set 7

- According to the classical dichotomy, a reduction in the money stock causes
 - a reduction in the real interest rate.
 - a reduction in real exchange rate.
 - a reduction in real GDP.
 - None of the above
- That money is neutral in the long run means that
 - Okun's law is invalid in the long run.
 - monetary policy can always neutralize a negative supply shock.
 - the Ricardian equivalence proposition only creates inflation in the long run.
 - None of the above
- Using the version of the quantity equation in which variables are expressed as rates of change, if the money stock remains constant and the general price level rises, then
 - real GDP necessarily rises.
 - if real GDP remains constant, the velocity of money has diminished.
 - if real GDP remains constant, the rate of change of the velocity of money is positive.
 - None of the above
- What policy can neutralize the effect on the inflation rate of a reduction in population that does not affect employment?
 - Supply-side policy.
 - Contractionary monetary policy.
 - Expansionary fiscal policy.
 - None of the above
- The central bank can provide liquidity by
 - conducting an open market operation in which the central bank sells financial assets.
 - raising the reserve requirements.
 - raising the people's liquidity ratio.
 - conducting an open market operation in which the central bank purchases financial assets.
- The rest of the world has just entered a recession, so foreign output is being reduced. It is likely that, in the domestic economy, this will cause
 - a rise in both the inflation rate and real GDP.
 - a rise in the inflation rate and a fall in real GDP.
 - a fall in both the inflation rate and real GDP.
 - a fall in the inflation rate and a rise in real GDP.
- Policymakers have decided to offset the effect on real GDP of a contraction of the AS function. If they resort to the fiscal policy to achieve this goal, the appropriate fiscal policy
 - shifts the AD function to the right.
 - shifts the AD function to the left.
 - shifts the AS function to the left.
 - None of the above
- When the central bank sells financial assets,
 - the nominal interest rate tends to decline.
 - liquidity tends to rise.
 - the money multiplier goes up because the sale causes a rise in both the reserve ratio and the liquidity ratio.
 - the nominal interest rate tends to increase.
- What sentence is not true?
 - The central bank affects directly M_0 .
 - The money multiplier links M_0 with M_1 .
 - An increase in the reserve ratio lowers the money multiplier.
 - The ECB sets the value of the Euribor by means of a tender procedure.
- According to the quantity equation, if $V = 2$ and $M = 400$, then
 - nominal GDP is not 800.
 - $P = 8$ if real GDP is 100.
 - real GDP is higher than 100.
 - None of the above

11. Decisions on indirect taxes (like the VAT) fall within
- supply-side policy.
 - monetary policy.
 - fiscal policy.
 - None of the above
12. A contractionary monetary policy aims at
- reducing the real interest rate.
 - increasing the real exchange rate.
 - reducing the inflation rate.
 - None of the above
13. The interest rate channel of monetary policy differs from the exchange rate channel in that the former affects
- the government expenditure, whereas the latter affects net exports.
 - private investment, whereas the latter affects government expenditure.
 - private consumption, whereas the latter affects the credit conditions.
 - None of the above
14. The empirical evidence suggests that a persistently monetized budget deficit tends to
- increase the inflation rate.
 - accelerate a disinflation process.
 - cause deflation.
 - Neither (a) nor (b)
15. Which of the following is not an example of demand policy?
- An expansionary open market operation
 - Professional training programmes for unemployed workers
 - Cutting unemployment benefits
 - A rise in the tax rates
16. Monetizing the government debt means
- increasing taxes now with the aim of decreasing them in the future.
 - that the central bank is implementing an expansionary fiscal policy.
 - that the central bank is carrying out a contractionary monetary policy.
 - None of the above
17. Using the version of the quantity equation in which variables are expressed as rates of change, if the money velocity remains constant, then
- if nominal GDP does not change, then the inflation rate is approximately equal to the rate of change of the money stock.
 - the rate of change of nominal GDP is always positive.
 - if the money stock does not vary, then the inflation rate is approximately equal to the rate of change of nominal GDP.
 - if the inflation rate is zero, then nominal GDP remains constant.
18. Combining an expansionary fiscal policy with a contractionary monetary policy
- always makes the inflation rate go up.
 - may leave the inflation rate unaltered.
 - always causes a drop in the inflation rate.
 - None of the above
19. Fighting stagflation means aiming at
- increasing real GDP and lowering the inflation rate by adopting a contractionary monetary policy and an expansionary fiscal policy.
 - lowering real GDP and increasing the inflation rate by means of supply-side policies.
 - increasing real GDP and lowering the inflation rate by adopting an expansionary monetary policy and a contractionary fiscal policy
 - None of the above
20. Which variable is in the quantity equation?
- The velocity of money
 - The unemployment rate
 - The target inflation rate
 - The real interest rate
21. The goal of an expansionary fiscal policy is to increase
- the money stock.
 - the unemployment rate.
 - the foreign real GDP.
 - None of the above

22. An increase in real GDP and a reduction in the inflation rate have been observed. A possible explanation is that
- an expansionary fiscal policy has been implemented.
 - a contractionary monetary policy has been implemented.
 - supply-side policies have been applied.
 - None of the above
23. Which sentence is not false?
- The ultimate goal of monetary policy is to lose control of the nominal interest rate.
 - The inflation rate is the only intermediate target of monetary policy.
 - Establishing reserve requirements is a monetary policy instrument.
 - Open market operations do not constitute an instrument of monetary policy.
24. Which sentence is not false?
- The General Council is the main decision-making body of the European Central Bank.
 - The Eurosystem is exactly the same institution as the European Central Bank.
 - The European System of Central Banks is the monetary authority of the eurozone.
 - The Executive Board of the European Central Bank implements the monetary policy decided by the Governing Council.
25. Taylor's rule is an instance of
- a fiscal policy rule.
 - a monetary policy rule.
 - a supply-side policy rule.
 - None of the above
26. An example of a policy rule is given by
- Okun's law.
 - the Laffer curve or the rule of 70.
 - Taylor's rule.
 - the Phillips curve.
27. The crowding-out effect has to do with
- the Laffer curve.
 - the Phillips curve.
 - neither (a), nor (b), nor (d).
 - the Ricardian equivalence proposition and the impossible trinity.
28. Which sentence is true?
- An increase in the government revenues due to a tax raise stimulates the economic activity
 - A cut in public spending or a tax raise or both tend to depress aggregate demand
 - An increase in public spending causes a fall in the overall economic activity
 - Only (a) and (c) are true
29. The sequence $\downarrow M0 \Rightarrow \downarrow M1 \Rightarrow \uparrow i \Rightarrow \uparrow r \Rightarrow \downarrow C \Rightarrow \downarrow I \Rightarrow \downarrow AD \Rightarrow \downarrow Y$ represents the interest rate channel of monetary policy.
- The step $\downarrow M1 \Rightarrow \uparrow i$ is not correct because, in the liquidity market, a fall in liquidity never implies a raise in the interest rate.
 - The step $\downarrow M0 \Rightarrow \downarrow M1$ is due to the money multiplier.
 - The above sketch represents the effect of an expansionary monetary policy.
 - None of the above
30. According to the crowding-out effect, an increase in the government expenditure tends to
- reduce private expenditure (consumption plus investment).
 - lower the nominal interest rate.
 - increase the inflation rate and cause a fall in real GDP.
 - None of the above
31. According to Taylor's rule,
- the central bank should force the real interest rate to be below the long-run equilibrium real interest rate if the inflation rate is below the target inflation rate.
 - the central bank should force the real interest rate to be above the long-run equilibrium real interest rate if the inflation rate is below the target inflation rate.
 - the central bank should force the real interest rate to be below the long-run equilibrium real interest rate if the inflation rate is above the target inflation rate.
 - the proper design of economic policy demands having at least as many instruments as targets (or goals).

32. The empirical evidence suggests that the degree of independence of a central bank with respect to the government is negatively correlated with
- the unemployment rate.
 - the real GDP rate of growth.
 - the inflation rate.
 - None of the above
33. The main refinancing operations (MROs)
- are the interest rates set by the European Central Bank.
 - are also known as the marginal lending facility.
 - are a particular case of the Taylor's rule.
 - constitute a tool of monetary policy.
34. Goodhart's law states that the design of economic policies
- requires at least as many instruments as goals.
 - is always temporally inconsistent.
 - faces the problems generated by the existence of lags.
 - None of the above
35. Which combination of measures cannot give rise to a contractionary fiscal policy?
- The tax rate is lowered and the government expenditure is increased.
 - The central bank sells financial assets.
 - The tax rate is raised and transfers are increased.
 - None of the above
36. Which sentence is not false?
- Policies that improve the productive capacity of the economy constitute examples of demand-side policies.
 - Monetary policy is an example of a supply-side policy.
 - According to the quantity equation the higher the government budget deficit, the larger the crowding out effect on private expenditure.
 - The classical dichotomy expresses a view on the relationship between real variables and nominal variables.
37. The basic rule of economic policy asserts that
- there is no basic rule of economic policy.
 - polymaking based on rules is better than polymaking based on discretionary measures.
 - temporal inconsistent policies are not credible.
 - None of the above
38. Which rate is not set by the European Central Bank?
- The interest rate on the marginal lending facility.
 - The interest rate of the main refinancing operations when they are executed in the form of a fixed rate tender.
 - The Euribor
 - None of the above
39. Which sentence is not true?
- Monetizing the budget deficit does not mean that the government increases the tax rate to raise more revenue.
 - The crowding out effect takes place when the central bank buys financial assets.
 - An expansionary fiscal policy causes, at least initially, an increase in aggregate demand.
 - 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.
40. The quantity equation is not directly related to
- contractionary fiscal policy measures.
 - the velocity of money.
 - real GDP.
 - None of the above
41. The main refinancing operations (MROs) of the European Central Bank are
- open markets operations.
 - standing facilities.
 - reserve requirements.
 - an absorbing liquidity procedure under the direct control of the General Council of the European Central Bank.

42. What is likely to cause stagflation?
- A contractionary open market operation
 - An expansionary fiscal policy.
 - The closure of 30% of all the factories.
 - A tax rise combined with an increase in transfers.
43. The policy consisting of an expansionary fiscal policy combined with a supply-side policy,
- shifts Goodhart's law to the right.
 - shifts Taylor's rule to the right.
 - shifts both the AS function and the AD function to the right.
 - None of the above, or rotates the Laffer curve around its maximum point, or monetizes all the public debt, or always constitutes a temporally inconsistent policy, or contradicts the quantity equation.
44. Which variable does not appear in Okun's law, the Phillips curve, or the quantity equation?
- The government budget deficit.
 - The unemployment rate.
 - The stock of money.
 - The inflation rate.
45. Which one is a monetary policy instrument of central banks?
- The money multiplier
 - The reserve ratio
 - The GDP deflator
 - The inflation rate
46. What policy neutralizes the effect on the inflation rate and the real GDP of a positive shock to the aggregate supply function?
- An expansionary fiscal policy
 - A contractionary fiscal policy
 - A contractionary monetary policy
 - None of the above
47. According to the aggregate supply and aggregate demand (AS-AD) model, what could neutralize stagflation?
- An expansionary fiscal policy
 - An contractionary monetary policy
 - A supply-side policy
 - None of the above
48. An expansionary fiscal policy aims at rising
- the money stock.
 - the unemployment rate.
 - foreign real GDP.
 - None of the above
49. An expansionary fiscal policy on the inflationary region of the aggregate supply function
- stimulates production and rises the unemployment rate.
 - causes a decline in production.
 - has a negligible effect on the inflation rate.
 - None of the above
50. An expansionary monetary policy aims at
- lowering the interest rate.
 - a currency appreciation.
 - Reducing the inflation rate.
 - None of the above
51. Taylor's rule
- is an example of discretionary fiscal policy.
 - is a supply-side policy measure.
 - is an analytical tool to represent the monetary policy decisions taken by a central bank.
 - None of the above
52. The possibility of having a temporally inconsistent policy is the same thing as
- the action lag in policy-making.
 - Taylor's rule.
 - the basic rule of economic policy.
 - None of the above
53. Which sentence is not false?
- Goodhart's law is a particular case of Okun's law.
 - The Laffer curve consists of the part of the Phillips curve that is immune to the effectiveness lag.
 - Taylor's rule relates changes in the inflation rate with changes in both the nominal and the real interest rate.
 - The debate "rules vs discretion" is the debate on whether supply-side policies are preferable to demand-side policies.

54. Which combination of policies alter the inflation rate in the same direction?
- Expansionary fiscal policy and contractionary monetary policy.
 - Expansionary monetary policy and supply-side policy.
 - Supply-side policy and contractionary fiscal policy.
 - None of the above
55. Which sentence is not true?
- Monetarism is the view that the money stock is the chief determinant of the short-run aggregate demand.
 - There is empirical evidence suggesting that lower inflation rates tend to be associated with more independent (with respect to the government) central banks.
 - Referring to inflation as a tax means that, inevitably, a rising inflation causes a rise in the government deficit.
 - The ECB interest rate on the marginal lending facility is higher than the ECB interest rate on the deposit facility.
56. According to the AS-AD model, what could not likely lead to a fall in the inflation rate?
- A cut in the taxes paid by consumers when they purchase goods.
 - A revaluation, in a fixed exchange rate regime.
 - The adoption of supply-side policy measures
 - A contractionary monetary policy
57. In which case at least one of the terms is not directly related to the European Central Bank?
- Eurosystem and marginal interest rate of a variable interest rate tender main refinancing operation.
 - Governing Council and marginal lending facility.
 - Interest rate on the main refinancing operations and primary government budget deficit.
 - Deposit facility and European System of Central Banks.
58. In the AS-AD model, real GDP necessarily grows if
- taxes (paid by consumers) on sales rise and reserve requirements are brought down.
 - transfers are increased and a contractionary open market operation is conducted.
 - supply-side policies are adopted at the same time as government purchases fall.
 - None of the above
59. According to the crowding-out effect
- the exchange rate channel of monetary policy is more effective than the interest rate channel.
 - the classical dichotomy invalidates the Ricardian equivalence proposition.
 - the monetization of the government deficit reduces the inflation rate.
 - None of the above
60. Using the quantity equation (with absolute or relative values), in which case is the inflation rate higher?
- With a constant velocity of circulation of money, the money stock increases by 10% and real GDP decreases by 5%.
 - With a constant velocity of circulation of money, the money stock increases by 10% and real GDP increases by 5%.
 - Nominal GDP increases by 5%, real GDP remains constant, and the velocity of money increases by 2%.
 - Both the money stock and the velocity of money remain constant, whereas real GDP falls by 12%.
61. What is likely to shift the aggregate supply function to the right and the aggregate demand function to the left?
- Supply-side policy plus expansionary monetary policy
 - Closing down of firms plus expansionary fiscal policy
 - Closing down of firms plus stock market crash
 - Supply-side policy plus stock market crash