Introduction to Macroeconomics · Final exam · 23 June 2016

1. Define the government budget as spending plus transfers minus taxes. Then it is a macroeconomic identity that
(a) savings = investment − the government budget − net exports.
(b) investment = savings + the government budget + net exports.
(c) savings = investment + the government budget + net exports.
(d) None of the above

2. Which variable cannot be negative?
(a) The inflation rate
(b) The change in the inflation rate
(c) The rate of growth of nominal GDP
(d) None of the above

3. An economy has, for sure, lending capacity if
(a) $S - I > 0$ and $T - G - TR > 0$.
(b) $S - I > 0$ and $T - G - TR < 0$.
(c) $S - I < 0$ and $T - G - TR > 0$.
(d) $S - I < 0$ and $T - G - TR < 0$.

4. Which event does not lower the money multiplier?
(a) A rise in the liquidity ratio
(b) A rise in the reserve ratio
(c) A rise in both the liquidity ratio and reserve
(d) None of the above

5. The monetary base is 100, the money stock is 1000, and the liquidity ratio is 0.1. As a result,
(a) the money multiplier cannot be calculated.
(b) the reserve ratio must be zero.
(c) the money multiplier is 10.
(d) the money multiplier is 0.1.

6. The aim of an expansionary monetary policy is
(a) to lower the interest rate.
(b) to rise the government budget deficit.
(c) to lower the inflation rate.
(d) None of the above

7. According to the Fisher equation, if the real interest rate is 6% and the nominal interest rate is 4%, then the inflation rate is
(a) 10%
(b) 2%.
(c) −2%.
(d) Neither (a), nor (b), nor (c)

8. A central bank can increase liquidity by
(a) selling financial assets.
(b) rising the reseve ratio.
(c) lowering the monetary base.
(d) purchasing financial assets.

9. What is the necessary effect of conducting a contractionary open market operation when firms issue financial assets to finance the construction of new factories?
(a) A fall in the interest rate
(b) A rise in the interest rate
(c) A fall in the amount of liquidity
(d) Neither (a), nor (b), nor (c)

10. What could explain a fall in the exchange rate $/€?
(a) A fall in the US interest rate
(b) A rise in the US inflation rate
(c) A rise in the eurozone interest rate
(d) None of the above

11. The difference between depreciation and devaluation is
(a) absolutely none.
(b) that a depreciation involves a government decision, whereas a devaluation is determined by the currency market.
(c) that a depreciation is a reduction in the exchange rate, whereas a devaluation is an increase.
(d) None of the above

12. The euro depreciates against the dollar but, at the same time, appreciates against the boliviano (the Bolivian currency) if
(a) the Central Bank of Bolivia purchases bolivianos in exchange for euros and the US Federal Reserve buys dollars in exchange for euros.
(b) the Central Bank of Bolivia purchases bolivianos in exchange for dollars and the US Federal Reserve buys dollars in exchange for bolivianos.
(c) the European Central Bank purchases dollars in exchange for euros and the Central Bank of Bolivia purchases euros in exchange for bolivianos.
(d) the European Central Bank purchases euros in exchange for dollars and, simultaneously, purchases bolivianos in exchange for euros.

13. In the AS-AD model, a favourable shock on consumption under a negative shock on aggregate supply
(a) leads necessarily to a reduction in the unemployment rate.
(b) always creates an uncertain effect on the inflation rate.
(c) tends to generate a rise in the inflation rate.
(d) necessarily lowers GDP.

14. In the AS-AD model, GDP has increased but the inflation rate has remained approximately constant. A possible explanation is
(a) that consumers have lost wealth.
(b) that the international price of oil went up.
(c) that the tax rate paid by consumers has been lowered, with the economy remaining on the non-inflationary region of the AS function.
(d) None of the above

15. What could explain a shift of the AD function to the right?
(a) The belief that the economy is entering into a recession
(b) A cut on taxes paid by consumers that occurs while the government expand its spending
(c) Prices abroad rising at a faster rate than domestic prices
(d) None of the above

16. A period in which GDP grows and unemployment falls is
(a) the Phillips curve.
(b) the business cycle.
(c) an expansion.
(d) a recession.

17. What policy mix produces a non-ambiguous effect on GDP?
(a) Expansionary fiscal policy + contractionary monetary policy
(b) Expansionary monetary policy + supply-side policy
(c) Supply-side policy + contractionary fiscal policy
(d) None of the above

18. A positive shock has affected the AS function. What policy would revert the macroeconomic equilibrium to its initial state?
(a) Expansionary fiscal policy
(b) Contractionary fiscal policy
(c) Contractionary monetary policy
(d) None of the above

19. What measure is not an example of a demand-side policy?
(a) An open market operation.
(b) A programme to improve the skills of unemployed workers.
(c) A cut in unemployment benefits.
(d) A rise in the taxes that consumers must pay.

20. Monetizing the public debt means that
(a) taxes are increased now to lower them in the future.
(b) the central bank conducts an expansionary fiscal policy.
(c) the central bank conducts an contractionary monetary policy.
(d) None of the above

ANSWERS TO THE MULTIPLE CHOICE QUESTIONS

No answer: no penalty · Incorrect answer: $-1/3$ of the value of a correct answer · Weight: 30%

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20

DNI number ____________________ Surnames ____ Name ___________________________

1. [2%] Define the GDP deflator.	
2. [2%] What does the purchasing power parity theory hold?	
3. [2%] What is a monetary aggregate? Suggest an example.	
4. [2%] Interpret and state Fisher equation.	
5. [2%] Define the expression “currency depreciation” and illustrate the definition with an example.	
6. [2%] What is a fixed exchange rate regime?	
7. [2%] Explain what a speculative attack in the currency market is.	
8. [2%] Which are the phases of the economic cycle?	
9. [2%] What is an acyclical variable? Suggest an example.	
10. [2%] What is a monetary policy instrument? List three such instruments.	

11. [5%] Explain how the money creation process and the money multiplier are likely to be affected by the generalized use among consumers of mobile phones to make payments.	

12. [5%] Explain whether the following assertion is true or false: "A contractionary open market operation occurs when people or firms sell financial assets."

13. [5%] Explain whether the following assertion is true or false: "Disinflation is negative inflation."	

14. [5%] Explain the exchange rate channel of monetary policy.

15. [10%] Imagine that in today's Brexit referendum (the United Kingdom European Union membership referendum) the result of the plebiscite is to leave the European Union and that, as a consequence, all eurozone investors decide to liquidate their financial investments in the United Kingdom by selling all the financial assets they have bought in that country. (i) Use the currency market model to explain and ascertain the effect of that decision on the exchange rate €/£. Specifically, would the pound sterling appreciate or depreciate against the euro? (ii) State a policy measure that the British authorities could implement to neutralize the effect found in (i) and explain how the policy neutralizes the effect.

16. [10%] Suppose the policy goal is to expand aggregate demand (in order to make GDP grow).

(i) Explain if, to achieve this goal, the implementation of an expansionary fiscal policy is equivalent to the implementation of an expansionary monetary policy.

(ii) If the application of one of these policies makes a difference with respect to the other, identify and explain the difference.

17. [10%] Let E be an economy that imports raw materials.

(i) Explain, and analyze graphically in the AS-AD model, the impact on E's macroeconomic equilibrium of a reduction in the international price of raw materials.

(ii) How could a government make use of fiscal policy to try to neutralize the impact found in (i)? Explain, and analyze graphically in the AS-AD model, how the policy measure would neutralize the impact.