1. What is not false about triangular arbitrage?
(a) It can occur under exchange rates 2 $/€, 2 $/¥, and 1 ¥/€
(b) It is a way of unfolding a speculative attack.
(c) It can occur under exchange rates 1 $/€, 2 $/¥, and 1 ¥/€
(d) It is made impossible by the impossible trinity.

2. The European Central Bank executes a contractionary monetary policy. As a result, it is likely that, in the currency market,
(a) the euro will appreciate against the dollar.
(b) the dollar will appreciate against the euro.
(c) the supply of euros will shift to the right.
(d) None of the above

3. What cannot explain a depreciation of the euro against the dollar?
(a) A raise in the US interest rate.
(b) A raise in the eurozone inflation rate.
(c) A fall in the eurozone GDP.
(d) None of the above

4. According to the impossible trinity, it is not possible to simultaneously have
(a) a fixed exchange rate, a sovereign monetary policy, and free capital flows.
(b) high unemployment, low inflation, and a revaluation.
(c) a currency crisis, spatial arbitrage, and a speculative attack.
(d) commercial arbitrage, an undervalued currency, and Okun's law.

5. The competitiveness of an economy improves when
(a) the Eurocoin rises.
(b) its central bank buys the domestic currency in the currency market.
(c) the real exchange rate falls (a real depreciation occurs).
(d) None of the above

6. Which variable does not appear in Okun's law, the Phillips curve, or the quantity equation?
(a) The government budget deficit.
(b) The unemployment rate.
(c) The stock of money.
(d) The inflation rate.

7. According to the AS-AD model, a positive shock to consumption combined with a negative shock to the AS function tends to generate
(a) necessarily, a fall in the unemployment rate.
(b) always, an uncertain effect on the inflation rate.
(c) a rise in the inflation rate.
(d) necessarily, a fall in GDP.

8. Characteristically, in a booming economy
(a) GDP does not decline.
(b) the inflation rate is falling.
(c) the economy is reaching the through of the business cycle.
(d) countercyclical variables become cyclical, and coincident indicators become lagging indicators.

9. By the expenditure multiplier effect,
(a) an increase in the inflation forces the central bank to rise the interest rate, so the money stock falls.
(b) an increase in the government budget deficit financed by bond issue induces people to save for the payment of additional future taxes, so they cut consumption and aggregate demand falls.
(c) an increase in transfers, raises aggregate demand, which raises income, which raises consumption, which raises aggregate demand, which raises income…
(d) None of the above

10. According to Taylor's rule,
(a) 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.
(b) 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.
(c) 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.
(d) the proper design of economic policy demands having at least as many instruments as targets (or goals).

11. The crowding-out effect has to do with
(a) the Laffer curve.
(b) the Phillips curve.
(c) neither (a), nor (b), nor (d).
(d) the Ricardian equivalence proposition and the debt to GDP ratio.

12. The quantity equation is not directly related to
(a) contractionary fiscal policy measures.
(b) the velocity of money.
(c) real GDP.
(d) None of the above

13. What is likely to cause stagflation?
(a) A contractionary open market operation
(b) An expansionary fiscal policy.
(c) The closure of 30% of all the factories.
(d) A tax rise combined with an increase in transfers.

14. The main refinancing operations (MROs) of the European Central Bank are
(a) open markets operations.
(b) standing facilities.
(c) reserve requirements.
(d) an absorbing liquidity procedure under the direct control of the General Council of the European Central Bank.

15. The policy consisting of an expansionary fiscal policy combined with a supply-side policy,
(a) shifts Goodhart's law to the right.
(b) shifts Taylor's rule to the right.
(c) shifts both the AS function and the AD function to the right.
(d) 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.

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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DNI number_____ 1st Surname _____ Name _____

1. [16%] Define <u>briefly</u> the following concepts (use just one sentence whenever possible).

Business cycle

Macroeconomic equilibrium

Contractionary fiscal policy

Crowding-out effect

Purchasing power parity exchange rate

Stock market channel of the monetary policy

Non-inflationary region of the aggregate supply function

Monetization of the public debt

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, real GDP increases by 3%, and the money stock increases by 7%.

3. [8%] The price level in the eurozone is 200. The price level in the US is 400. The nominal exchange rate is $e = ½$ $/€ Find (showing definitions and your calculations): (i) the real exchange rate; (ii) the purchasing power parity exchange rate; and (iii) whether the euro is overvalued or undervalued with respect to its PPP value and by how much.

4. [10%] The European Central Bank wants the euro to be depreciated against the dollar. Identify, and illustrate graphically, some intervention by the ECB in the <u>currency</u> market that could achieve this goal.

5. [6%] A central bank follows the Taylor's rule $i = \pi + i_r^* + (\pi - \pi^*)/2$, where $\pi^*$ is the bank's inflation target and $i_r^*$ is the real interest rate to which the economy converges in the long run. Calculate by how much the actual real interest rate in the economy differs from $i_r^*$ if $\pi$ doubles $\pi^*$.

6. [16%] In order to curtail its debt, the government decides to increase the income tax and, simultaneously, to cut public spending. At the same time, the government decrees a labour reform that solely amounts to a fall of all wages by 10%. (i) Using the AS-AD model, explain the foreseeable effect of all those measures on the inflation rate, real GDP, and the unemployment rate. (ii) Indicate a monetary policy measure that could revert the inflation rate to its original value.

7. [10%] The government knows that, whenever a domestic big bank is in trouble, it will come to the rescue and bail out the bank. Despite this, the government has announced that under no circumstance banks will be rescued. Now, a very big bank is in trouble and the government decides that it will be rescued. What limitation of economic policy is this situation illustrating? Explain your answer.

8. [10%] University rectors (vice-chancellors) stood up yesterday 23rd of May the Spanish Education Minister, J. I. Wert. It was an unprecedented case. It has been claimed that this is expression of a protest against the minister's bad governance, since the decree-law on cuts on the higher education sector recently passed had been drafted without consulting those in charge of implementing the cuts: the rectors themselves. What limitation of economic policy is this situation illustrating? Explain your answer.