Introduction to Macroeconomics · M5 · 11 April 2013

1. Which option lists two monetary policy instruments of the central bank?
(a) GDP deflator and open market operations
(b) Real interest rate and inflation rate
(c) Reserve requirements and nominal GDP
(d) None of the above

2. A contractionary open market operation
(a) consists of buying or selling financial assets.
(b) is typically carried out by firms that need funds to finance investment projects.
(c) tends to rise the interest rate.
(d) None of the above

3. The real interest rate is, initially, positive and is given by the Fisher equation. If both the nominal interest rate and the inflation rate are cut by half, then the real interest rate
(a) is also cut by half.
(b) does not change.
(c) falls.
(d) becomes zero.

4. In which case the domestic interest rate could remain unaltered?
(a) A tax previously levied on loans and paid by borrowers is now removed and, simultaneously, the central bank executes a contractionary open market operation.
(b) 50% of the domestic firms go bankrupt and unemployment surges.
(c) Foreign banks settle new offices in the domestic economy while the government budget deficit doubles.
(d) None of the above

5. According to the Fisher effect,
(a) the nominal interest rate is always constant.
(b) the nominal interest rate reacts to changes in the inflation rate.
(c) the nominal GDP reacts to changes in the GDP deflator.
(d) the real interest rate can never be negative.

6. What could not explain a fall in the interest rate?
(a) Having fewer banks when more firms are created.
(b) An expansionary open market operation executed when unemployment increases.
(c) An increase in reserve requirements when the central bank buys financial assets.
(d) Having more banks when reserve requirements are increased.

7. What follows necessarily from a contractionary open market operation and the issuing of financial assets by firms to fund investment projects?
(a) A fall in the interest rate and a rise in the volume of loans
(b) A rise in both the interest rate and the volume of loans
(c) A fall in the volume of loans
(d) None of the above

8. Which sentence is not true?
(a) If the Fisher equation holds, having always a constant real interest rate justifies the Fisher effect.
(b) An expansionary open market operation does not shift the demand for loans function to the left.
(c) The purchase of (interest-bearing) financial assets can be considered an indirect demand for loans.
(d) The Fisher equation does not relate the nominal interest rate with the nominal GDP or with the unemployment rate.

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	

DNI Number ________________ 1st Surname ____________________ Name __________________