

← the mark you consider fair

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1. The fallacy of composition
 - (a) is also known as the *post hoc ergo propter hoc* fallacy.
 - (b) is the converse of the *cum hoc ergo propter hoc* fallacy.
 - (c) states that El Farol bar problem is an example of a prisoner's dilemma type game.
 - (d) None of the above
2. GDP per capita can be considered a measure of
 - (a) deflation and, some times, of hyperinflation.
 - (b) the price of financial assets.
 - (c) the average standard of living.
 - (d) None of the above
3. The unit of account function of money
 - (a) is emphasized by the credit (or debt) theory of money.
 - (b) is the same as the medium of exchange function of money.
 - (c) asserts that **M3** is larger than **M2** or that securitization is a measure of financial depth.
 - (d) holds that the higher the liquidity of a financial asset, the larger its rate of return.
4. Taylor's rule
 - (a) states that the Lucas paradox occurs when Okun's law coincides with the Phillips curve.
 - (b) is a particular case of the Swan diagram.
 - (c) is not an example of a monetary policy rule.
 - (d) None of the above
5. According to the Fisher effect there is a one-to-one relationship
 - (a) between the nominal exchange rate and the real interest rate.
 - (b) between the nominal interest rate and the inflation rate.
 - (c) between the real wage rate and purchasing power.
 - (d) None of the above
6. Triangular arbitrage is not possible if exchange rates are
 - (a) $\frac{1}{2} \text{€}/\text{\$}$, $\frac{1}{2} \text{€}/\text{¥}$, $1 \text{\$/¥}$.
 - (b) $\frac{1}{2} \text{€}/\text{\$}$, $\frac{1}{2} \text{€}/\text{¥}$, $\frac{1}{2} \text{\$/¥}$.
 - (c) $2 \text{€}/\text{\$}$, $\frac{1}{2} \text{€}/\text{¥}$, $\frac{1}{2} \text{\$/¥}$.
 - (d) None of the above
7. Rodrik's trilemma asserts that
 - (a) a real depreciation cannot be a nominal appreciation.
 - (b) a nominal appreciation cannot be a real depreciation.
 - (c) commercial arbitrage, financial arbitrage, and spatial arbitrage are inconsistent.
 - (d) None of the above
8. The Big Mac index
 - (a) is not a measure of Goodhart's law.
 - (b) is a stylized fact of the business cycle.
 - (c) measures the amount of involuntary unemployment in a segmented labour market.
 - (d) expresses how vicious or virtuous is the deflationary spiral that occurs when procyclical variables become leading indicators in the presence of strong expenditure multiplier effects and provided that the Tinbergen precept fails.

9. Which sentence is not true?
 - (a) The unemployment rate is a variable appearing in both Okun's law and the Phillips curve, but is not one of the variables that defines an aggregate supply function.
 - (b) Okun's law does not refer to the inflation rate, but the Phillips curve and the aggregate demand function involve the inflation rate.
 - (c) Taylor's rule and the quantity equation are both particular cases of the Fisher equation.
 - (d) The monetary policy transmission channels do not establish a link between the political business cycle and the Ricardian equivalence proposition.
10. In the 1970s, the psychologist Walter Mischel subjected four-year kids to the "marshmallow test". Each kid sits in a room with an instructor. The kid is told that the instructor is going to leave the room but will return soon and that, meanwhile, the kid has to choose between waiting until the instructor returns (in which case the kid is given two marshmallows) or ringing a bell before the instructor returns (in which case the kid receives only one marshmallow). The test showed that some kids preferred one marshmallow now than two later and that some others had the opposite preference. The whole experiment can be used to illustrate the concept of
 - (a) purchasing power parity exchange rate.
 - (b) discount factor.
 - (c) the Laffer curve.
 - (d) the perversity thesis.
11. The euro would not tend to appreciate with respect to the dollar if
 - (a) the eurozone interest rate is pushed up.
 - (b) more European firms would like to establish and build factories in the US.
 - (c) the US interest rate diminishes.
 - (d) None of the above
12. According to the liquidity market model, what could explain, in principle, a drop in the interest rate?
 - (a) A contractionary open market operation
 - (b) A decrease in the reserve ratio
 - (c) Financial assets are massively sold
 - (d) 25% of all the banks go bankrupt
13. What shifts the AS function and the AD function in the same direction, at least initially and in general?
 - (a) A contractionary fiscal policy and an increase in the number of firms
 - (b) A contractionary monetary policy and an expansionary fiscal policy
 - (c) A supply-side policy and a rise in the financial wealth caused by a stock market boom
 - (d) A rise in energy prices and a depreciation of the domestic currency

No answer: no penalty · Wrong answer: $-1/3$ of the value of a correct answer · Weight: 26%

1	2	3	4	5	6	7	8	9	10	11	12	13

DNI number _____ Surnames _____ Name _____

MAKING MORE THAN 10 SERIOUS SPELLING OR GRAMMATICAL MISTAKES = EXAM NOT SAT
IN SOLVING NUMERICAL QUESTIONS, WRITE DOWN ALL THE FORMULAE USED

1. [1.5%] If the GDP deflator inflation rate is -3% and nominal GDP has fallen by 2%, by how much has real GDP changed approximately?		
2. [1.5%] Indicate some feature that the CPI and the GDP deflator have in common and some other that differentiates them.	In common	Difference
3. [1.5%] Identify two nominal and two real macroeconomic variables that cannot take negative values (whose names do not include the terms "nominal" and "real").	Nominal variables	Real variables
4. [2%] What is a standing facility and with what kind of economic policy is related?		
5. [1.5%] Identify two stock and two flow macroeconomic variables.	Stock	Flow
6. [2.5%] (i) State the savings macroeconomic identity. (ii) If there are both a trade deficit and a government budget deficit, what can be said about net private savings $S - I$?		
7. [4%] Initially, banks lend 100% of all the available funds that they could legally lend. How is the money creation process likely to be affected by the banks' decision of reducing the proportion of funds lent to 50%?		
8. [3.5%] The money multiplier is 2. Deposits equal four times reserves. If possible, find the liquidity ratio.		
9. [2%] Assuming the formula that relates the face value of a T-bill, its price, and the interest rate, calculate the face value if the discount factor is 1 and the price is 100.		
10. [1%] Name two of the decision-making bodies of the European Central Bank.		
11. [1.5%] List four monetary policy instruments.		
12. [1.5%] According to the relative purchasing parity, what is the rate of appreciation of the euro against the dollar if the European inflation rate is -3% and the US inflation rate is 0%?		
13. [1.5%] According to the uncovered interest rate parity, what is the expected rate of appreciation of the euro against the dollar if the European interest rate is 3% and the US interest rate is 0%?		
14. [1.5%] Indicate some feature that the fixed and the floating exchange rate regimes have in common and some other that differentiates them.	In common	Difference
15. [1.5%] Indicate some feature that the money and the expenditure multiplier processes have in common and some other that differentiates them.	In common	Difference

16. [1.5%] What is incompatible according to the impossible trinity?			
17. [2%] Assuming the formula that relates the face value of a T-bill, its price, and the interest rate, calculate the face value if the interest rate is 100% and the price is 100.			
18. [1.5%] Calculate the real interest rate if the nominal interest rate equals the inflation rate.			
19. [2%] Calculate the purchasing power parity exchange rate (adopting the dollar as the home currency) if the nominal exchange rate is 2 €/\$, the eurozone CPI is 200, and the US CPI is 100.			
20. [2%] Calculate the real exchange rate (adopting the dollar as the home currency) if the nominal exchange rate is 2 €/\$, the eurozone CPI is 200, and the US CPI is 100.			
21. [1.5%] List three fiscal policy tools.			
22. [1.5%] State three supply-side policies.			
23. [2.5%] One of the explanations for the existence of involuntary unemployment holds that...			
24. [1%] What does the Tinbergen precept say?			
25. [1.5%] Explain the meaning of the expression “austerity economics”.			
26. [1.5%] What is the difference between “good” and “bad” deflation?			
27. [1.5%] Using the version of the quantity equation expressed in rates of change, calculate the inflation rate if the rate of change of the velocity of circulation of money equals the rate of change of real GDP and the money stock is reduced by 2%.			
<p>28. [9%] Initial situation: purchasers of financial assets have to pay a tax when purchasing financial assets, whereas the sale of financial assets is tax-free. (a) Using the liquidity market model, explain and analyze graphically the effect on the equilibrium interest rate of each of the following events: (i) the government removes the tax on purchasers of financial assets; (ii) the government imposes a tax on the sellers of financial assets when selling financial assets. (b) Indicate a monetary policy measure that could neutralize the effect on the interest rate when both (i) and (ii) occur.</p>			

29. [7.5%] Consider the standard currency market model that involves the euro and the dollar. (i) What is the (most immediate) effect on the equilibrium exchange rate $\$/\text{€}$ of an expansionary open market operation conducted by the US Federal Reserve? (ii) What intervention in the currency market should the European Central Bank carry out to revert the exchange rate to its initial value?

30. [9%] Using the AS-AD model, explain and analyze graphically the effect on the macroeconomic equilibrium of each of the following pairs of events: (i) the rest of the world is conducting a contractionary monetary policy at a time when the international price of oil is pushing up; (ii) the domestic government duplicates the wage of all civil servants and pays the wage raise by increasing the tax rate on the firms' profits.

Optional. "Vast amounts of money have been shovelled in to the Japanese economy. That has had two big impacts. It has pushed up real estate and stock prices, and it has pushed down the value of the yen. The first has made rich Japanese richer; the second has made big Japanese exporters richer. But there it has stopped. There has been virtually no trickle-down to the rest of Japan. Stagnant wages and rising prices through most of last year mean most Japanese actually feel poorer." <http://www.bbc.com/news/business-31483274>.

(i) What kind of economic policy is "to shovel in vast amounts of money"? (ii) Using the appropriate models, justify the two impacts mentioned. (iii) Why no trickle-down occurred? (iv) Why stagnant wages and rising prices mean that people feel poorer?