ECONOMIC POLICY AND BUSINESS ACTIVITY – School year 2016-2017

Final Exam – Normal Period **6th of June 2017**

The answers to the questions indicated below should be given without the recourse of any kind of taught materials, including calculators.
Twenty-five questions are proposed. For each question there is only one correct answer that has to be identified with the symbol X inside the corresponding square. The choice of more than one answer is not permitted and will imply that the answer is not given. In case of mistake, please correct the answer by writing: "the right answer is … ". The right answer will have a positive score of 0.8. The wrong answer will have a penalty of 0.25.
The duration of the exam is 90 minutes.

Please fill in the appropriate spaces identified below with your name and corresponding student number.

QUESTIONS WITH MULTIPLE CHOICES

Cap. 5 – Ethics in the monetary policy

1. Despite the increasing interest after the start of the Great Recession in 2007-2008, the introduction of moral precepts in economics, most notably for economic policy purposes, has been a very controversial issue since the beginning of this science. Which one of the following will likely deny the relevance of this link:

☐ a) Adam Smith.
☐ b) The Austrian School.
☐ c) Capitalists and financiers of the late 19^{th} century well represented by J. P. Morgan.
☐ d) Those economists who believe economics is like an engineer's science that deals essentially with technological problems.

2. Nicholas Oresme, the founder of the ethics of money production, based its system on a critique to:

☐ a) The natural course of monies.
☐ b) The permission to circulate of several metallic coins.
☐ c) Both previous [a) and b)].
☐ d) None of the above.

3. Following Oresme, Hulsmann developed the theory of all monetary privileges, whose moral foundation is the:

☐ a) Legalization of counterfeit monetary certificates.
☐ b) Legal monopoly of monetary issuance
☐ c) Legal course (forced) of money
☐ d) Suspension of payments.

4. Gresham's Law states that:

☐ a) Good money drives out bad money in any circumstance.
☐ b) Bad money drives out good money in any circumstance.
☐ c) Bad money drives out good money if there is an imposed fixed exchange between both moneys.
☐ d) Good money drives out bad money if there is an imposed fixed exchange between both moneys.

***Name of the student:* ____ *Nº* ________**

Cap. 3- Monetary Policy

5. We have discussed the advantages and disadvantages of each one of the main economic policies we studied, particularly monetary and fiscal policies. In light of this, one of the following is true:

☐ a) Monetary policy is highly effective in the short time.
☐ b) Fiscal policy is more effective in the long run.
☐ c) Monetary policy benefits from the short time lag for decisions.
☐ d) None of the above.

6. According to the monetarist approach, the Philips curve in the long-run:

☐ a) Shifts slightly out and to the right.
☐ b) Takes a vertical form and shifts to the right.
☐ c) Moves along to the right.
☐ d) Becomes even more relevant to explain the related trade-off.

7. In the last decades, the role of central banks was profoundly modified throughout the world, they converge however in important respects, which of the following items is true?

☐ a) *Inflation targeting* became fashionable in the 1980s.

☐ b) *Financial stability* was since the very beginning of the reform a high priority, and until now there was no fresh views on the subject.

☐ c) *Exchange-rate stability* deserves some attention, but it is not at the mandates' core of the main central banks we have studied.

☐ d) All of the above.

8. The Rule of Taylor is used for the determination of:

☐ a) The real interest rate to be followed by the central bank.

☐ b) The optimal rate of inflation that the central bank must define as objective.

☐ c) The optimal growth rate to be recommended as objective by the central bank.

☐ d) None of the above.

9. The objective of price stability became very much important in the 1990s, leading to disinflation. Which of the following would not be interested in such a process:

☐ a) Creditors.
☐ b) Exporting firms.
☐ c) Firms depending on imported inputs.
☐ d) None of the above.

Cap. 3 – Growth Policies

10. The catching-up process:

☐ a) Is general and easily observable worldwide.

☐ b) Is not clearly linked to technological advances in the country or region.

☐ b) According to historical experience, at some point, tends to stagnation.

☐ d) Is rather linear in its effects on income distribution along time.

11. In the Portugal of 2000s, we observed a clear trend towards stagnation of the *total productivity of factors* (or Solow residual). Supposing that we have the **annual rates** of a few economic indicators and we want to know whether this trend persists or not in the last years, which of the following measures would you choose?

☐ a) GDP less working hours.
☐ b) Labor productivity plus K/L ratio.
☐ c) Capital productivity plus capital accumulation.
☐ d) None of the above

12. Supposing that you belong to a research group that is studying measures in order to overcome the problem and context of the Portuguese economy raised in the previous question. Which one of the following policies would you prefer for that purpose?

- ☐ a) Increase in wages and other incomes.
- ☐ b) Increase and enlargement of the program in infrastructures.
- ☐ c) Making markets work better.
- ☐ d) To expect that European structural policies will lead to a gradual improvement.

13. The intensification of the use of ICT (Information and Communication Technologies) is an important factor in improving labor productivity. This effect of ICT operates through several channels. Which of the following channels is not operational?

- ☐ a) Substitution of undifferentiated *L* by skilled *L*.
- ☐ b) Better access to credit for the acquisition of ICT equipment relative to other equipment.
- ☐ c) Increase in the ratio *K/L* (substitution of *L* by *K*).
- ☐ d) None of the above.

14. In the context of Solow growth model: the savings rate that maximizes the consumption per capita (optimal saving) is reached when the marginal returns of capital (real interest rate) equals:

- ☐ a) GDP growth rate.
- ☐ b) The growth rate of TPF.
- ☐ c) The elasticity of GDP per capita in relation to savings.
- ☐ d) None of the above.

15. Which of the following items is not part of the hypotheses of the Solow growth model:

- ☐ a) Increasing returns of the capital.
- ☐ b) Constant returns to scale.
- ☐ c) Savings rate is exogenous
- ☐ d) None of the above.

Cap. 2 – Fiscal Policy

16. In the middle of the 1990s, Sweden implemented important reforms focusing on public finances, caused by:

- ☐ a) Unsatisfactory and incomplete treatment of previous crises.
- ☐ b) In accordance with rules implied by its membership of the European Union.
- ☐ c) Both previous [a) and b)].
- ☐ d) Failure in the international markets.

17. In the realm of budgetary and fiscal policies, which of the following indicators became a fashion in the 2000s, namely in the European Union:

- ☐ a) Primary balance.
- ☐ b) Structural balance.
- ☐ c) Effects of automatic stabilizers
- ☐ d) Fiscal stance.

18. The condition for the stability of the ratio of the public debt to GDP is as follows:

- ☐ a) b = (n - i) d
- ☐ b) n = d – i b
- ☐ c) n = d + i b
- ☐ d) None of the above.

(d = primary deficit in % of GDP; n = nominal growth rate of GDP; i = nominal interest rate; b=debt in % of GDP)

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19. Considering our study of the relationship between business and financial cycles, which one of the following items is true:

☐ a) They have tight links over prolonged periods.
☐ b) Both are much synchronized across economies.
☐ c) The impact of lowering interest rates is not ambiguous in the course of each of the two cycles.
☐ d) Global liquidity and easing domestic monetary policies (like zero bound or negative interest rates) may fuel new credit booms.

20. It is inferred from the analysis in the Austrian perspective that the appropriate policy to overcome economic crises is:

☐ a) To reduce taxes that interfere with saving and investment.
☐ b) Public aid to banks in order to compensate for bad loans and thus improve the supply of credit and consequently investment.
☐ c) To legislate to hinder the bankruptcy of companies thus preventing the reduction of divestment.
☐ d) None of the above.

Cap. 1 - Introduction

21. The first signs of the ineffectiveness of the *Keynesian Paradigm* with both high inflation and high unemployment:

☐ a) In the 2000s after the launching of the Euro.
☐ b) In the 1980s.
☐ c) In the 1990s.
☐ d) None of the above.

22. In the case of two negatively correlated objectives, the implementation of *structural reforms* based on institutions, will determine a change in their combination through:

☐ a) A shift to the left and out of the initial combination.
☐ b) A shift to the right along the initial combination.
☐ c) The correlation turns positive.
☐ d) None of the above.

23. Macroeconomic policy was originated in works of Keynes in the 1930s. The argument advanced for the need of public intervention refers to the new characteristics of the economic system in Keynes's time. These founding characteristics are:

☐ a) Animal spirits.
☐ b) Rigidity of prices and wages.
☐ c) Both previous [a) and b)].
☐ d) None of the above [a), b) and c)].

24. Which situation does not violate the hypotheses on which the 1st welfare theorem of economics is based:

☐ a) Existence of imperfect information of the policymaker.
☐ b) Existence of incomplete markets.
☐ c) Existence of markets with positive externalities.
☐ d) Existence of markets with negative externalities.

25. Favorable conditions for the technocratic solution (independent agencies and/or rules based policy) are:

☐ a) Decisions that are not vulnerable to time-inconsistency.
☐ b) Decisions with limited impact on income distribution between generations.
☐ c) Both previous [a) and b)].
☐ d) None of the above [a), b) and c)].