ECONOMIC POLICY AND BUSINESS ACTIVITY – Academic Year 2015-2016
Final Written Exam – Option 1: 31st May 2016

The answers to the questions indicated below should be given without the recourse of any kind of taught materials. 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 negative penalty of 0.25.
The duration of the exam is 90 minutes.

In appropriate spaces identified below please fill them in with your name and corresponding number of student.

QUESTIONS WITH MULTIPLE CHOICES

1. The legal-tender laws on money production:
- ☐ a) Are the result of the spontaneous evolution of the market
- ☐ b) Do not bring benefits to debtors
- ☐ c) Are not neutral in relation to the balance sheet of the government
- ☐ d) It is favorable to money issuers

2. According to Nicholas Oresme, the legal exchange-rate between two currencies in circulation (e.g. in the past the case of gold and silver) should be established by:
- ☐ a) The government
- ☐ b) An independent commission
- ☐ c) International agreements
- ☐ d) None of the above answers

3. Adam Smith, the founder of economic science, considered this discipline as a *moral science*. Accordingly, he wrote two complementary treatises (The Wealth of Nations and The Theory of Moral Sentiments) that reconciles the idea of the invisible hand (based on the relevance of individual interests) with the idea of the surety of the ethical behavior of individuals. This reconciliation is guaranteed by:
- ☐ a) The idea that the individuals' utilities are an increasing function of providing benefits to others
- ☐ b) The fear that individuals have from the divine punishment for the non-ethical conducts
- ☐ c) The efficacy of the enforcement of ethical laws established
- ☐ d) None of the above answers

4. Indicate the answer below that constitutes the arguments of economists who deny the theory of natural monopoly and its use for the formulation of economic policy:
- ☐ a) The theory was formulated because of externalities in the production and consumption of goods
- ☐ b) The theory was formulated because of the idea of decreasing average cost in the production process
- ☐ c) The theory of natural monopoly is the outcome of the natural process of competition in the market
- ☐ d) None of the above answers

5. For the political economy approach:
- ☐ a) The government is a benevolent entity
- ☐ b) The government monitors and steers the private economy in the name of the general interests
- ☐ c) The government is composed by rational players who follow their own specific goals
- ☐ d) The government do not face specific constraints

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6. Consider the effect of a restrictive fiscal policy within various theoretical frameworks. Then:
   - ☐ a) In the new-Keynesian models that effect on GDP will be neutral
   - ☐ b) In the Ricardian equivalence models that effect on GDP will be recessionary
   - ☐ c) In the neoclassical models with composition effects that effect on GDP will be expansionary if debt is high
   - ☐ d) In the Keynesian models with threshold effects that effect on GDP will be recessionary

7. Assume the Ricardian equivalence theory of fiscal policy. Then an increase in government expenditure will imply:
   - ☐ a) An increase in price and aggregate income
   - ☐ b) A decrease in price and an increase in aggregate income
   - ☐ c) An increase in price and a decrease in aggregate income
   - ☐ d) None of the above answers

8. Consider the condition of the stability of the debt-to-GDP ratio over the time. This condition implies that:
   - ☐ a) The higher is the difference between the growth rate of economy and the interest rate on debt, the lower is the primary deficit, *ceteris paribus*
   - ☐ b) The higher is the growth rate of economy, the lower is the primary deficit, *ceteris paribus*
   - ☐ c) The higher is the interest rate, the lower is the primary deficit, *ceteris paribus*
   - ☐ d) None of the above answers

9. In policy decisions, time inconsistency implies that:
   - ☐ a) The sequence of policy decisions that result from optimizing at each period constitute an optimal policy
   - ☐ b) Over time, *ex-post* and *ex-ante* optimality coincide
   - ☐ c) Discretionary policies are superior to policy rules
   - ☐ d) Rules-based policymaking should be adopted by governments and independent institutions

10. Political and technocratic decisions are two imperfect methods of governance. But policy decisions by governments appears preferable when:
    - ☐ a) Social preferences are stable and performance criteria are well-defined
    - ☐ b) The decisions in question and their effects are not easily observable by voters
    - ☐ c) The decisions are highly vulnerable to time inconsistency
    - ☐ d) The decisions involve trade-off between incompatible objectives of policies

11. Consider the Mundell-Fleming model for an open economy. Short-term fiscal policy is effective with:
    - ☐ a) Floating exchange rate and high capital mobility
    - ☐ b) Fixed exchange rate and high capital mobility
    - ☐ c) Fixed exchange rate and low capital mobility
    - ☐ d) None of the above answers

12. Taking into account a production function with a constant returns to scale and technological progress, the growth of the GDP is equal to:
    - ☐ a) The growth of the total factor productivity + the growth of the capital intensity
    - ☐ b) The growth of the labor productivity
    - ☐ c) The growth of the capital intensity
    - ☐ d) The growth of the capital intensity + the growth of the total factor productivity + the growth of the labor input

13. Consider the Solow growth model with technological progress where the share of capital per unit of GDP is α, and suppose an increase of 2% in the savings rate and an increase of 3% in the GDP level. Then the value of α is equal to:
    - ☐ a) 0.45
    - ☐ b) 0.50
    - ☐ c) 0.55
    - ☐ d) 0.60

14. The value of seigniorage earned by central banks when the golden rule of capital accumulation is satisfied is equal to:
    - ☐ a) $i\,\Delta M0$ (i=nominal interest rate)
    - ☐ b) i GDP
    - ☐ c) i M0
    - ☐ d) $i\,M0 + \Delta M0$

15. The Cantillon effect is related to currency issuance by central banks. In this principle:
☐ a) In the long run, the expansion of money supply affects real variables
☐ b) In the long run, there is a relationship between money supply and real GDP
☐ c) In the long run, money dispersion is never neutral in terms of income distribution
☐ d) In the long run, currency issuance by central banks increases the real GDP level

16. In the model developed by Richard Clarida, Jordi Gali and Mark Gertler (1999), which develops a theory of monetary policy, the central bank sets the short-term interest rate so as to keep:
☐ a) The current inflation rate and the future output gap as close as possible to their targets
☐ b) The current inflation rate as close as possible to its target
☐ c) The current output gap as close as possible to its target
☐ d) The future inflation rate and the future output gap as close as possible to their targets

17. The independence of central banks comes from:
☐ a) The appointment of their administration by an independent entity from the political power
☐ b) The scrutiny of their potential administrators by the specialized parliamentary commission
☐ c) The unambiguous capability of their potential administrators
☐ d) The laws in countries or treaties in economic regions

18. In the Ramsey growth model with technological progress, the steady-state equilibrium is achieved when:
☐ a) The real interest rate is equal to the population growth plus technical change
☐ b) The per capita consumption is sub-optimal
☐ c) The per capita savings is sub-optimal
☐ d) All the above answers

19. Consider the transversality condition for the sustainability of public debt. In practice, in European Union, this condition over time is assessed by:
☐ a) The fiscal imbalance
☐ b) The public structural balance
☐ c) Comparing the global tax pressure with the sustainable tax rate
☐ d) The debt and deficit positions

20. Generally, in the euro system, the EONIA:
☐ a) Is higher than the main refinancing rate charged by the European Central Bank
☐ b) Is lower than the main refinancing rate charged by the European Central Bank
☐ c) Is higher than the permanent marginal lending facility
☐ d) None of the above answers

21. Suppose that the European Central Bank withdraws the bank notes of 500 euros from the market. Then:
☐ a) The supply of money will remain constant, *ceteris paribus*
☐ b) The supply of money will increase, *ceteris paribus*
☐ c) The supply of money will contract, *ceteris paribus*
☐ d) The nominal interest will rise, *ceteris paribus*

22. Suppose that the Solow model with technological progress describes the evolution of a country. Then the public policies aiming at increasing the savings rate will:
☐ a) Increase the growth rate of the economy in the steady state
☐ b) Increase the growth rate of the GDP per person in the steady state
☐ c) Increase the level of GDP in the steady state
☐ d) Increase the growth rate of the total factor productivity

23. Suppose that economies are affected by a permanent negative supply shock. Assume now a positive monetary and fiscal impulse to overcome the effects of this shock. In the long run, the negative supply shock and the expansionary policies will imply:
☐ a) A reduction in output and price levels
☐ b) A rise in output and price levels
☐ c) A reduction in output and an increase in price levels
☐ d) None of the above results

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24. Consider the annual growth of the variables inserted in Table 1. The value of B is:

☐ a) 1.0%
☐ b) 1.5%
☐ c) 0.7%
☐ d) None of the above answers

25. Look again at Table 1. The value of A is:

☐ a) 2.0%
☐ b) 1.5%
☐ c) 2.5%.
☐ d) None of the above answers

Table 1: Average annual growth of variables in the period 2000 - 2015

GDP	A
Total Hours Worked	1.3
Employment	1.1
Working Hours per Person	0.2
Labor Productivity	1.2
Contribution of Capital/Labor Ratio	0.7
Total Factor Productivity	B