ECONOMIC POLICY AND BUSINESS ACTIVITY – Academic Year 215-2016

Final Written Exam – Call 2: 5th July 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 the appropriate space identified below please fill it in with your name and corresponding number of student.

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

QUESTIONS WITH MULTIPLE CHOICES

1. 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 not formulated because of externalities in the production and consumption of goods
   - ☐ b) The theory was not formulated because of the idea of decreasing average cost in the production process
   - ☐ c) The theory of natural monopoly is not the outcome of the natural process of competition in the markets
   - ☐ d) All the above answers

2. 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 not composed by rational players who follow their own specific goals
   - ☐ d) The government faces specific constraints

3. The effect of a fiscal contraction:
   - ☐ a) Is not recessionary in the new-Keynesian models
   - ☐ b) Is recessionary in the Ricardian equivalence models
   - ☐ c) Is expansionary in the neoclassical models with composition effects when debt is unsustainable
   - ☐ d) Is expansionary in the Keynesian models with threshold effects when debt is low

4. Assume the Keynesian theory on fiscal policy. Here a decrease in taxes will imply:
   - ☐ a) An increase in price and an increase in 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 answer

5. 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 higher 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 higher is the primary deficit, *ceteris paribus*
☐ d) None of the above answers

6. The time-inconsistency theory suggests that:

☐ a) The sequence of policy decisions that result from optimizing at each period do not constitute an optimal policy
☐ b) Over time, *ex-post* and *ex-ante* optimality do not coincide
☐ c) Policy rules should be adopted by governments
☐ d) All the above answers

7. 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

8. Consider the Mundell-Fleming model for an open economy. Short-term fiscal policy is not very effective with:

☐ a) Floating exchange rate and high capital mobility
☐ b) Fixed exchange rate and high capital mobility
☐ c) Floating exchange rate and low capital mobility
☐ d) None of the above answers

9. Taking into account a production function with constant return to scale and technological progress, the growth of total factor productivity is equal to:

☐ a) The growth of GDP - the growth of capital intensity – the growth of labor input
☐ b) The growth of labor productivity
☐ c) The growth of capital intensity
☐ d) The growth of capital intensity + the growth of labor input

10. Consider the Solow growth model with technological progress where the share of capital per unit of GDP is α, and suppose an increase of 1.5% in the savings rate and an increase of 3% in the steady state per capita GDP. Then the value of α is equal to:

☐ a) 1/3
☐ b) 2/3
☐ c) 3/3
☐ d) 4/3

11. The value of seigniorage earned by central banks when the golden rule of capital accumulation is satisfied is equal to:

☐ a) i M0 (i=nominal interest rate)
☐ b) Δ M1
☐ c) i M1 or Δ M1
☐ d) i M1 or Δ M0

12. The Cantillon effect is related to currency issuance by central banks. In this principle:

☐ a) The expansion of money supply affects real variables
☐ b) There is a relationship between money supply and real GDP
☐ c) Money dispersion is neutral in terms of income distribution
☐ d) There is a regressive taxation

13. A number of central banks used the Taylor rule for the monetary policy. According to this rule, in practice, central banks aims at:

☐ a) Maximizing the output gap
☐ b) Minimizing the difference between the inflation rate and its objective
☐ c) Fixing the steady state level of the real interest rate
☐ d) All the above answers

14. The independence of the European Central Bank 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 treaties in European Union

15. 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 optimal
☐ c) The per capita savings is optimal
☐ d) All the above answers

16. 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

17. Generally, in the euro system, the main refinancing rate or refi is:

☐ a) The maximum rate at which commercial banks can obtain liquidity
☐ b) Equal to EONIA
☐ c) Equal to marginal lending facility
☐ d) None of the above answers

18. Suppose that the European Central Bank withdraws the bank notes of 500 euros from the market. Then:

☐ a) The nominal interest rate will not remain constant, *ceteris paribus*
☐ b) The supply of money will increase, *ceteris paribus*
☐ c) The supply of money will contract, *ceteris paribus*
☐ d) None of the above answers

19. 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 level of aggregate production in steady state
☐ b) Increase the growth rate of the GDP per person in steady state
☐ c) Increase the growth rate of labor productivity
☐ d) Increase the growth rate of total factor productivity

20. Suppose that economies are affected by a permanent negative demand shock. Assume now a positive fiscal impulse to overcome the effect of this shock. In the Ricardian equivalence theory, the negative demand shock and the expansionary policy 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

21. 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) Is favorable to money issuers

22. The legal-tender laws on money production:

☐ a) Are not 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) Is not favorable to money issuers

23. 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) where the idea of invisible hand (based on the relevance of individual interests) is coherent with the idea of positive ethical behavior of individuals. This consistency is guaranteed by:

☐ a) The idea that individuals' utilities are not an increasing function of providing benefits to others
☐ b) The fear that individuals have from the divine punishment because of non-ethical conducts
☐ c) The efficacy of enforcement of ethical laws established
☐ d) None of the above answers

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

☐ a) 1.2%
☐ b) 1.5%
☐ c) 0.7%
☐ d) 0.5%

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

☐ a) 0.7%
☐ b) 0.5%
☐ c) 0.3%
☐ d) 0.2%

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

GDP	1.5
Total Hours Worked	1.0
Employment	0.3
Working Hours per Person	0.7
Labor Productivity	A
Contribution of Capital/Labor Ratio	B
Total Factor Productivity	0.2