



ECONOMIC POLICY AND BUSINESS ACTIVITY – School year 2016-2017
Final Exam – Appeal Period **6th of July 2017**

Case 1 (students that participated in the continuous evaluation and had positive results): Twenty-five questions are proposed in this exam. 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.

Case 2 (students that had no participation in the continuous evaluation): PART I: 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 0.5. The wrong answer will have a penalty of 0.15. PART II: the student must also respond to three questions in a relatively developed way. Each of these questions is value at a maximum of 2.5.

Case 3: students seeking to improve their mark must follow case 2.

All the answers to the questions indicated (multiple choice or not) should be given without the recourse to any kind of taught materials, including calculators.

The **duration of the exam** is 90 minutes (Case 1) and 120 minutes (Cases 2 and 3)

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

PART I

QUESTIONS WITH MULTIPLE CHOICES

- Which author would you identify with following statement: “Make use of at least as many policy instruments as you have policy targets, but do not attach specific instruments rigidly to particular targets”:
 a) Hayek
 b) Tinbergen
 c) Solow
 d) Rawls
- The concept of **natural monopoly** is based on the way how, along with the rise of production, perform:
 a) The variable costs
 b) The average revenues
 c) The marginal revenues
 d) Average costs in long term
- Efficiency-enhancing policies are supposed:
 a) To bring benefits for all without significant differences.
 b) To cause winners and losers
 c) To be indifferent in relation to income distribution.
 d) To be, in general, easily implemented.

Name of the student: _____ **Nº** _____

4. We analyzed and discussed the specialization of policy decision-making. Political bodies are not recommended if:
- a) Decisions are not vulnerable to time-inconsistency.
 - b) Decisions have impact on income distribution between generations.
 - c) **There is significant international interdependence.**
 - d) None of the above.
5. The concept of animal spirits is used in traditional economic policy to explain:
- a) The scarcity of consumption.
 - b) **The instability of investment.**
 - c) High interest rates.
 - d) None of the above.
6. The **time inconsistency problem** became a very important issue in economic policy:
- a) It allowed a clarification between the relations of objectives and instruments.
 - b) It implied that the market would gradually solve the major economic problems.
 - c) It considered that short-term choices had no significant impact.
 - d) **It led to a focus on the institutional features of the policy process.**
7. In order to know if a **banking crisis** looms in the horizon, which of the following items would you choose:
- a) Credit to GDP ratio
 - b) Property prices
 - c) Debt service ratio.
 - d) **All of the above.**
8. The fundamental objectives in the **mandate of the USA Central Bank** (Federal Reserve) are:
- a) **Stability of GDP and prices**
 - b) GDP and financial stability
 - c) Financial stability
 - d) Prices stability
9. The **Rule of Taylor** is defined by the following equation:
- a) $i = r_o + \pi + 0,5 (\pi + \pi_o) + 0,5 (y + y_o)$
 - b) $i = r_o - \pi + 0,5 (\pi - \pi_o) - 0,5 (y - y_o)$
 - c) **$i = r_o + \pi + 0,5 (\pi - \pi_o) + 0,5 (y - y_o)$**
 - d) None of the above.
- i = nominal short-term interest rate; π = inflation rate ; π_o = target inflation rate;
 $y - y_o$ = output gap (y = actual GDP; y_o = potential GDP); r_o = target real interest rate
10. Starting from the well-known adage “inflation is always and everywhere a monetary phenomenon”, which of the following items would be **more informative concerning inflation**:
- a) A general rise in wages.
 - b) Money growth.
 - c) **An expansionary monetary policy.**
 - d) None of the above.
11. By **β convergence** we mean:
- a) A negative correlation between the growth rate of the total productivity of factors and the initial K/N ratio.
 - b) **A negative correlation between the initial GDP per capita and the GDP growth rate.**
 - b) A negative correlation between the growth rate of the total productivity of factors and the initial GDP per capita.
 - d) None of the above.
12. According to the data provided by the research of Angus Maddison, the part of Asia (except Japan) in the world GDP was 16.4% in 1973 and increased to 33.9% in 2003. Suppose that you want to study such growth of Asian countries through the **Solow model**. Which of the following hypotheses is not assumed for this model:
- a) Technical progress and savings rate are exogenous.
 - b) **Increasing returns of K and L.**
 - c) Constant returns to scale.
 - d) K and L are perfect substitutes.

13. Which of the following would you consider the **golden rule of capital accumulation**?
- a) $r = g + K/L$
 - b) $r > n - g$
 - c) $r = n + g + s$
 - d) None of the above
14. In the text "Catching-up processes in the euro area" the poor performance of labor productivity in EU **catching up economies** is attributed to:
- a) Factors within industries
 - b) The lack of structural reforms
 - c) Results in the non-tradable services sectors
 - d) All of the above.
15. By **underlying fiscal balance** we understand:
- a) The balance of public accounts including secret operations.
 - b) Balance of public accounts including estimated taxes from subterranean activities.
 - c) Balance of public accounts excluding the area of national defense.
 - d) None of the above.
16. The **stabilization of debt ratio** requires that:
- a) $n = d = ib$
 - b) $b = (n - i) d$
 - c) $d = (n - i) b$
 - d) $n = d + ib$
- (d = primary deficit in % of GDP; n = nominal growth rate of GDP; i = nominal interest rate; b = debt in % of GDP)
17. The basic argument related to the **Ricardian equivalence** consists in:
- a) It is indifferent to finance public spending through taxes or public debt.
 - b) Public spending in a certain year must be equivalent to the effective receipts in taxes.
 - c) Taxes must be always equivalent to the effective capacities of taxpayers.
 - d) The increase in public debt must be equivalent to the planned public investment.
18. The **negative interest rates** fixed by the European Central Bank aim at:
- a) Avoiding the growth of inflation rate
 - b) Compensating the increase in exchange rate
 - c) Incentivizing the deposits of the other banks in the ECB
 - d) None of the above
19. Indicate the situation that is not suitable to evaluate the **independence of central banks**:
- a) Limitation of loan concession to government by the central bank.
 - b) Selection by the rule of law of objectives which have to be pursued by the central bank.
 - c) Appointment of the central bank board by a commission of parliament members.
 - d) Limitation of the government capacity to dismiss the members of the central bank.
20. According to the **Austrian perspective**, the understanding of economic crises must emphasize the concept of:
- a) Consumption scarcity
 - b) Investment scarcity
 - c) Consumption glut
 - d) Credit glut
21. In his Nobel speech, Hayek considers as causes underlying the **failures in economic policy**:
- a) The fact that in economics is only considered as relevant what has the possibility of being measured.
 - b) The fact that in economics is only considered as relevant what has the possibility of being controlled by the state.
 - c) Both a) and b)
 - d) None of the above.

Name of the student: _____ Nº _____

22. Look at Table 1: the value of A is:
- a) 1.0%
 - b) – 1.0%
 - c) -0.5%
 - d) 0.5%.
23. Look at Table 1 again: the value of B is:
- a) 0.3%
 - b) 1.1%
 - c) – 1.1%
 - d) None of the above.
24. : Which of following items is more likely considered a Keynesian recommendation to stabilize the economy:
- a) To discipline the credit glut to consumption.
 - b) To encourage savings in order to promote investment later.
 - c) To encourage investment to compensate the savings glut.
 - d) None of the above.
25. The work of **Nicolas Oresme**, a French philosopher and bishop of the 14th century is still very much present in current debates on economics and economic policies, and the main reason lies in his:
- a) Treaty of Commerce.
 - b) Theory on the influence of religious ideas in economic policies designs.
 - c) Clarity of the way he saw the relationship of money with the market.
 - d) Apology of interventionism

Table 1 – Average annual growth rates (%) in 2000-2014.

GDP	1.5
Total hours worked	1.0
Employment	0.3
Working hours (by worker)	0.7
Labor productivity	A
Contribution of Capital/ Labor Ratio	B
Total productivity factos	0.2