ECONOMIC POLICY AND BUSINESS ACTIVITY

Normal Examination Period – B

5 June 2018 – Academic year 2017-18

Duration: 90 minutes

You cannot use any kind of study materials. **There is only one correct answer per question: the correct answer has a score of 1.0, the wrong answer has a penalty of 0.3**.

Indicate your choice with the symbol X inside the corresponding square. In case of altering your answer, please signal the final choice by writing: "the right answer is … ".

The choice of more than one answer is not allowed and is equivalent to not answering the question.

MULTIPLE CHOICE QUESTIONS

1. Which indicators are used to collect information on financial cycles and banking crises:
   - ☐ a) The ratio of credit to GDP.
   - ☐ b) The price of real estate assets.
   - ☐ c) The debt service ratio.
   - ☐ d) All of the above.

2. The State promotes different forms of intervention in the economy, such as:
   - ☐ a) The allocation of resources that seeks to minimize the deviation between the effective output and the potential output.
   - ☐ b) Economic stabilization aimed at maximizing the level of potential output in the long term.
   - ☐ c) Redistribution of income that aims to minimize the asymmetries between agents (in the same period or between different periods) or between regions.
   - ☐ d) None of the above.

3. The use of the concept of *animal spirits* to explain investment instability is characteristic of which school of economists:
   - ☐ a) Ricardian equivalence.
   - ☐ b) Neoclassical.
   - ☐ c) Austrian.
   - ☐ d) Keynesian.

4. By structural balance we mean:
   - ☐ a) Government's balance subtracted of government's intermediate consumption.
   - ☐ b) Government's balance subtracted of interest on public debt.
   - ☐ c) Government's balance subtracted of the cyclical component of the financial balance.
   - ☐ d) None of the above.

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5. It is possible to make the following statements about price stability as a target of central banks:
☐ a) The control of the money supply has been losing effectiveness as an instrument for the control of inflation.
☐ b) Independent institutions with a narrow mandate, such as central banks, are better equipped to pursue this objective.
☐ c) Both a) and b) are correct.
☐ d) a) and b) are false.

6. A conventional **Taylor Rule** can be 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 = short-term nominal interest rate; π = inflation rate; π_0 = inflation rate target; y = effective output;
y_0= potential output; r_o = the real interest rate that is compatible with the potential output

7. The output gap represents the difference between:
☐   a) The output consumed and the output invested.
☐   b) The potential output and the effective output.
☐   c) The domestic output and the national output.
☐   d) Potential GDP and planned GDP.

8. By normative approach to economic policy we mean:
☐   a) An approach in which the economist seeks to influence the political decision maker making recommendations based on his knowledge.
☐   b) An approach in which the political decision maker stops being an observer of the political system and becomes an actor susceptible of analysis by the economist.
☐   c) The approach that aims to analyze the effect of public policies on the economy.
☐   d) None of the above.

9. The **Timbergen rule** prescribes:
☐   a) The number of objectives must exceed the number of instruments.
☐   b) The relationship between the variation of the money supply and the inflation rate.
☐   c) The relationship between the variation of public spending and the output gap.
☐   d) None of the above.

10. The **Ricardian equivalence** hypothesis states that:
☐   a) The public debt to be contracted must be equivalent to the public investment to be made.
☐   b) Public expenditure in a given year should be equivalent to taxes.
☐   c) Taxes should always be equivalent to the actual taxpayer capacity.
☐   d) None of the above.

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11. The economic and financial crisis of 2007 and 2008 aggravated the context of uncertainty in relation to:
☐ a) Uncertainty regarding the deviation between the actual product and the potential product.
☐ b) Uncertainty regarding the transmission mechanism of MP.
☐ c) Both a) and b) are correct.
☐ d) None of the above is correct.

12. A positive output gap means that output is above its potential. How do you interpret this situation?
☐ a) There is an increase in social welfare due to the increase in family income.
☐ b) This is an undesirable situation because the increase in demand tends to be reflected in higher marginal costs and higher inflation.
☐ c) It is preferable for the economy to be below its potential output.
☐ d) None of the above.

13. The effectiveness of the various transmission channels of monetary policy varies from country to country:
☐ a) The greater the proportion of short-term or variable rate loans in the country, the less effective the interest rate channel.
☐ b) The transmission channel referring to the price of the assets is all the more effective the greater the importance of the participations of assets by the domestic consumers.
☐ c) Both a) and b) are correct.
☐ d) None of the above.

14. The share of the primary deficit in % of GDP, *d*, which guarantees the sustainability of the public debt, should verify the following condition:
☐ a) $d = (b - r) g$
☐ b) $d = (g - r) b$
☐ c) $d = (r - g) b$
☐ d) None of the above.
d: primary deficit as % of GDP; g: real growth rate of GDP; r: real interest rate; b: public debt as % of GDP

15. According to the article "Catching-up processes in the euro area", the dynamics of convergence / divergence during the **post-crisis period (2007-2013)** in the euro area is determined by the following factors:
☐ a) reduction of public debt in convergence countries.
☐ b) Very significant investment in human capital in the convergence countries.
☐ c) Promoting competition and improving the business environment.
☐ d) None of the above.

16. The problem of ***moral hazard*** in relation to public decisions refers to:
☐ a) Public policies must obey unquestionable ethical principles.
☐ b) Economic agents have an incentive to take excessive risk because they know that ultimately the government will be able to help them.
☐ c) Public policies must comply with criteria of transparency and promote citizen participation.
☐ d) None of the above is true.

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17. Indicate which of the hypotheses does not violate the 1st well-being theorem:
☐ a) Existence of economies of scale.
☐ b) Existence of externalities.
☐ c) Existence of complete and perfect information.
☐ d) Existence of public goods.

18. Consider the Keynesian theory of fiscal policy. In this context, a reduction in taxation will lead to:
☐ a) An increase in price and an increase in aggregate income.
☐ b) A reduction in price and an increase in aggregate income.
☐ c) A price increase and a reduction in aggregate income.
☐ d) None of the above.

19. Indicate in which of the following cases the concept of positive externalities is used in economic policy:
☐ a) To prescribe the taxation of companies in the sectors in which they constitute natural monopolies.
☐ b) To prescribe the subsidization of firms in sectors where positive externalities are identified
☐ c) To prescribe the nationalization of companies in sectors where positive externalities are identified.
☐ d) To prescribe the nationalization of companies in the sectors that constitute natural monopolies.

19. Consider the typical behavior of the assets transacted in financial markets:
☐ a) The interest rate on bonds decreases with maturity.
☐ b) There is a positive correlation between the market price of the bond and the interest rate.
☐ c) The price of a share increases, ceteris paribus, with an increase in the interest rate and a negative variation in GDP.
☐ d) None of the above.

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