



## ECONOMIC POLICY AND BUSINESS ACTIVITY

Academic year 2017-18

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- 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 the grid below.
- 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.

**Write your final answers here:**

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
a)																				
b)																				
c)																				
d)																				

Name of student: \_\_\_\_\_ Nº \_\_\_\_\_

## MULTIPLE CHOICE QUESTIONS

1. The Solow model marked the theory of growth during the second half of the twentieth century and demonstrated that:
  - a) Public policies can have permanent effects with long-term effects.
  - b) Labor productivity and per capita income of the least developed countries tend to converge in the long run to those in more developed countries.
  - c) Investment in education and the promotion of innovation stimulate technical progress.
  - d) None of the above is true.
2. In order to assess economic policy choices precise criteria are needed, including the following:
  - a) The Pareto criterion: maximization of the aggregate utility being indifferent to the way utility is distributed among individuals.
  - b) Bentham's social welfare function: maximization of the utility of the poorest individual.
  - c) Rawls's social welfare function: a policy improves the level of well-being if it increases the utility of at least one individual and does not reduce of any other.
  - d) None of the above is true.
3. The effectiveness of the various channels of monetary policy transmission varies from country to country.
  - a) The greater the proportion of short-term or variable rate loans in the country, the more effective is the interest rate channel.
  - b) The channel of transmission through the price of the assets is all the more effective the less the relevance of asset participations by domestic consumers.
  - c) Both a) and b) are false.
  - d) None of the above is true.
4. The Taylor rule is intended to indicate:
  - a) The real interest rate to be practiced by the central bank.
  - b) The optimal inflation rate that the central bank should set as its objective.
  - c) The maximum unemployment rate which the Government shall set as its objective.
  - d) None of the above is true.
5. One implication of the *golden rule* of capital accumulation is as follows:
  - a) The real interest rate should be equal to the GDP growth rate.
  - b) The real interest rate should be equal to the growth rate of total factor productivity.
  - c) The nominal interest rate shall be equal to the rate of growth of total factor productivity.
  - d) None of the above.
6. Luca's criticism refers to the following::
  - a) The parameters are estimated for the past and policy changes are incorporated into the expectations and behaviour of agents.
  - b) Only independent agencies can formulate correct economic policies.
  - c) Only independent agencies can formulate correct budgetary policies.
  - d) Only independent agencies can formulate correct monetary policies.
7. The Keynesian multiplier tends to be smaller when:
  - a) The marginal propensity to save is lower.
  - b) Countries have a strong protection for the unemployed.
  - c) Countries are not very open to the exterior.
  - d) None of the above is true.

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8. According to the text "Austerity: Hurting or Helping", the costs and benefits of the Fiscal and Budgetary Policy depend heavily on the nature of the recession:
- When a recession is caused by permanent shocks to demand or supply, an expansionary fiscal policy will have positive effects on output and employment.
  - When a recession is caused by temporary shocks to demand or supply, an expansionary fiscal policy will have negative effects on output and employment.
  - When a recession is caused by temporary shocks to demand, an expansionary fiscal policy can be effective in increasing output and employment.
  - None of the above is true.
9. The first manifestations of the inefficiency of the Keynesian paradigm with high rates of unemployment and inflation were:
- During the crisis of 2008.
  - In the 1960s.
  - In the 1990s.
  - None of the above.
10. By *positive approach* we mean:
- Allocation of resources that seeks to minimize the gap between the effective output and the potential output.
  - Economic stabilization aimed at maximizing the level of potential output in the long term.
  - Income redistribution aimed at minimizing asymmetries between agents (in the same period or between different periods) or between regions.
  - None of the above is true.
11. Suppose that an economy is affected by a permanent negative shock of demand. Assume that the government promotes an expansionary fiscal policy. According to the Ricardian equivalence theory, this policy will result in:
- A reduction in output and price.
  - An increase in output and price.
  - A reduction in output and an increase in price.
  - None of the above is true.
12. The problem of *moral hazard* in relation to public decisions refers to:
- Public policies must obey unquestionable ethical principles.
  - Public policies must comply with criteria of transparency and citizen participation.
  - The two previous ones are true.
  - None of the above is true.
13. Consider the typical behaviour of assets transacted in financial markets. Which of the following statements is true:
- The interest rate on bonds decreases with bond maturity.
  - There is a negative correlation between the market price of the bond and the interest rate.
  - The price of a share increases, ceteris paribus, following an increase in the interest rate and negative changes in GDP.
  - None of the above is true.
14. Narcissa Balta's article entitled "Catching-up processes in the euro area" examines convergence / divergence processes in the euro area, concluding that:
- The process of automatic convergence hypothesised in Solow's growth model is verified.
  - Investment flows were directed towards the sectors with the highest marginal productivity of capital.
  - Investment flows were directed to the sectors with the higher profits (non-tradables).
  - None of the above is true

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15. It is generally accepted that technocratic decision seems preferable when:
- The decisions in question and their effects are easily observable by the voters.
  - Decisions are not vulnerable to temporal inconsistencies.
  - Decisions have a significant impact on the distribution of income in each generation.
  - None of the above is true.
16. The condition for intergenerational sustainability of public debt is as follows:
- The present value of taxes (net of transfers) paid by future generations should be equal to the sum of the initial debt and the present value of the expenses plus the present value of the taxes (net of transfers) of the current generation.
  - The present value of taxes (net of transfers) paid by current generations should be equal to the sum of the initial debt and the present value of the expenses less the present value of taxes (net of transfers) of future generations.
  - The two previous ones are true.
  - None of the above is true.
17. Romer's growth model allows us to arrive at the following conclusions:
- Technical progress is exogenous.
  - The optimal level of savings is the one that equalizes the marginal product of capital and the GDP growth rate.
  - Throughout a growth process, per capita income and productivity show turning points that are not necessarily synchronous across countries at similar levels of development.
  - None of the above is true.
18. The theory of intertemporal inconsistency suggests that:
- The sequence of economic policy decisions that result from optimization in each period constitute an optimal policy.
  - Over time, the ex-post and ex-ante optimal decisions coincide with each other.
  - Rules-based policies should be followed as opposed to discretionary policies.
  - None of the above answers are true.
19. Public decisions must be taken on the basis of the *precautionary principle*:
- Ensure that public expenditure complies with legal requirements and is decided on the basis of transparent procedures.
  - Justify a transitional period in which it is decided not to take an immediate decision in order to better justify the final decision.
  - Ensure that public decisions at the present time do not burden future generations with unsustainable levels of taxation.
  - None of the above answers are true.
20. Indicate which of the hypotheses does not violate the 1st well-being theorem:
- Incomplete and imperfect information.
  - Constant returns to scale.
  - Public goods.
  - None of the above answers are true.

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