Note: given the fact that you’re ‘obliged’ to answer the weekly questions, try to profit the most from the task:

- Start by reading the lecture notes.

- Looking at them as little as possible, answer the questions.

The answers of the questions of **week 6** should be handed to me at the beginning of **Wednesday’s lecture of Nov 2nd.** They should be **manuscript (not typewritten)**, **concise** and preferably based on schemes (as I do in the whiteboard). Keep a copy for yourself.

Please write **WEEK 6 in bold** at the beginning of your answers.

**WEEK 6**

**L11: Ch. 6.1. The CAP of the EU**

1.a)What does the height of the S curve (from the x-axis) of agricultural products at a certain point reflect?

b) why does that curve have a positive slope?

c) If S > D, the price tends to fall. Why?

d) If S < D, the price tends to rise. Why?

2. Starting from autarky in the 1950s, if the EU had opened up to international trade of agricultural products, the price would have gone down.

a) Why?

b) Why would have production declined with the falling price?

3. a) What was the major measure that defined the Old CAP?

b) That measure implied tariff over M. Why?

c) Why did the increased price lead to an increase in output?

d) What was the effect of the major measure of the Old CAP (OCAP) on the M of agricultural products? Explain.

4. a) Draw a graph with the S and D for agricultural products.

b) The OCAP causes two sorts of losses upon consumers. Which ones? Indicate the corresponding areas in the graph.

c) The OCAP generated two sorts of gains for producers. Which ones? Indicate the corresponding areas in the graph.

d) Did the state gain or lose in the first years of the OCAP?

5. Poor consumers were especially hurt by the OCAP. Why?

6. What were the two reasons why large farmers gained more than small famers?

7. a) Why did land become more productive between 1961 and 1995?

b) Why did the agricultural employment share in overall employment decline in the EU since the 1950s?

c) What were the two reasons that led to a sharp reduction in unit production costs in agriculture?

8. a) Draw another graph with the S and D for agricultural products.

b) What was the effect of the Green Revolution upon the S curve of agricultural products?

c) Why did agricultural output rose so much?

d) What was the consequence on the relative size of consumption and production? Explain

d) What was the consequence of that on the EC revenues with the OCAP?

e) What did the EU do with the surpluses up until 1978?

f) What did the EU do with the surpluses after 1978?

g) Which countries were harmed by that? Explain.

i) Why did that force the EU to pay subsidies? Indicate the areas corresponding to the value of the subsidies.

9. In one sentence, why did the Green Revolution turned the OCAP from a source of revenues into a source of expenses?

10. a) What was the effect of the New CAP (NCAP) on the price of agricultural products in the EU? Explain

b) What was the effect on the amount of X? Explain.

11. a) What were the two reasons why consumers gained with the NCAP? Indicate their gain in the graph.

b) If they had not been partly compensated by the state, indicate in the graph what producers would have lost with the NCAP.

c) Why did the state gain with the NCAP?

**L12: The beginning of Part II of the syllabus: Open ec. MACROECONOMICS**

**I.Basic notions**

12. a) What is AD?

b) Under which conditions does AD determine output?

**13.**Why does AD determine aggregate income?

**14.** What’s the difference between domestic demand and aggregate demand?

15. a) What is the monetary base (MB)?

b) What is money?

c) Is the quantity of money measured by M1 or M2? Why?

16. a) Explain how new CDs and new reserves are created when someone exchanges with a commercial bank a dollar for the local currency.

b) Explain how new CDs and new reserves are created when a bank extends a loan to a business.

Note: in the lecture, I should have emphasized that the CB is always available to grant **any amount** of loans demanded by banks at a certain **fixed** interest rate.

17. a) What is the Inter-Bank Money Market (IBMM)?

b) Why can’t the interest rate of that market exceed the fixed rate at which the CB lends money to banks?

**II. The effects of a trade deficit on the MB, M1, M2, R and CB’s $ reserves.**

Key question; a good one for the final exam (I uploaded my notes about this):

**18.** Consider a trade deficit financed by people’s past savings under fixed exchange rates.

a) What is the effect of the trade deficit on the quantity of M1 in a first stage? Explain.

b) What is the effect of the trade deficit on the quantity of M1 in the end? Explain.

c) What is the effect of the trade deficit on the quantity of SDs? Explain. Why does that make all the economic sense?

d) What is the effect of the trade deficit on the quantity of reserves held by banks in a first stage? Explain.

e) How do we know that at the end banks want to hold the same amount of reserves as in the beginning?

f) What is the effect of the trade deficit on the interest rate of the IBMM? Explain.

g) What is the effect of the trade deficit on the quantity of reserves held by banks in the end? Explain.

h) What is the effect of the trade deficit on the quantity of dollar reserves held by the CB? Explain. Why does that make all the economic sense?