Note: the best way to study for the exam is to:

* Start by reading the lecture notes twice (if you don´t, your study will be of a much lower quality).And then answer the weekly questions.

The answers of Week 11’s questions should be handed to me **at the beginning of the exam.** They should be **manuscript (not typewritten)** and preferably based on schemes (as I do in the slides). Keep a copy for yourself.

Please write **WEEK 10 in bold** at the beginning of your answers.

**Week 10**

**L19: Several topics about different chapters of the syllabus**

**About ch5:**

**1.** When many investors have bought shares with loans, a decline in stock prices may lead to a vicious circle. Why?

**About ch1:**

**2.** Suppose that, due a big increase in optimism, at the current interest rate households and businesses triple the amount of credit they demand from banks.

**a)** If banks grant the credit demanded, what will happen to the quantity of money and to AD?

**b)** Banks may be unable to grant the credit demanded. Why?

**c)** If banks don´t face the restriction mentioned in your answer to b), may anything end up preventing the threefold increase in credit? Explain.

**About ch2:**

**3.** Why do New Keynesian economists believe that falling prices increase AD?

**About ch4:**

**4. a)** Why doesn’t growth on trend reduce unemployment?

**b)** “If output stays constant, so does employment and unemployment.” Do you agree? Explain.

**c)** If output falls by 5% and TP increases the production per worker by 3%, what happens to employment?

**d)** What is meant by a jobless recovery?

e) If output rises 2 pp point above trend, why doesn’t employment rise by 2 percent? F) f) In that case, what happens to the unemployment rate? What’s the name of that relation between output above-trend growth and the change in U?

**L19: Japan**

**5.**a) What was JP’s GDP growth in the 1980s?

b)What happened to JP’s GDP after 1990?

c) What was the average inflation rate after 1995 in Japan?

**6.** Using the circular flow of income with the numbers typical year of the 1980s, explain why the JP economy remained at FE, instead of falling below it.

**7.**a)What were the increases in stock and commercial real estate prices from 1985 to 1990?

b) What led to those price increases?

c) What was the reaction of the BoJ to those price increases in 1989-90?

d) Why does an increase in interest rates tend to reduce stock prices?

e) Why does an increase in interest rates tend to reduce real-estate prices?

**8.**a) What happened to the stock and commercial real estate prices in the years that followed?

b) What was the effect on the balance-sheets of tens of thousands of firms? Explain.

**9.**Characterize the process that leads to a typical insolvency.

**10.** Japanese insolvencies were much quicker than typical insolvencies. Do you agree? Explain.

**11.** What characterizes an insolvency procedure?

**12.** Banks suffer two sorts of losses when they subject many of their clients to insolvency procedures. Which ones? Explain.

**13.** In typical insolvencies, banks want authorities to subject firms to insolvency procedure as soon as possible. Do you agree? Explain.

**14.** In the Japanese business insolvencies of the mid-1990s, banks wanted authorities to subject firms to insolvency procedure as soon as possible. Do you agree? Explain.

**15.** Which elements of the circular flow of income of the 1980s Japan did change when the bubble burst? Did any of those changes have a positive effect an increase in AD? Explain. Do not consider fiscal policy yet. **Key question**

**16.** Characterize the downward spiral that the Japanese could have gone through in the 1990s if the gov. had not supported AD. **Key question**

**17.** Explain how the Jp gov prevented that spiral from taking place. **Key question**

**18.** The Japanese FP after the burst of the bubble was funded with new monetary base printed by the BoJ. Do you agree?

**19.** The Japanese FP after the burst of the bubble led to a reduction in the stock of private debt. Do you agree? Explain.