



**UNIVERSITÉ  
DE GENÈVE**



SECTION DES SCIENCES ÉCONOMIQUES  
UNIVERSITÉ DE GENÈVE

# INTRODUCTION TO MACROECONOMICS

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Family Name (capital letters):

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First Name:

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Student Number:

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Total number of pages: 10.

**Duration of the exam:** 3 h. (30 questions)

**Authorized material:** none (calculator not authorized).

## Instructions to answer multiple choice questions

- ★ The answer sheet will be distributed when we proceed to the identity check. Please leave your student card on the table in front of you to facilitate the identity check.
- ★ On the answer sheet, write down properly and in capital letters your family name, first name and “code candidat” (= 8 digit student number without scores)
- ★ The answers sheet must absolutely be handed in at the end of the exam. You can keep the questionnaire.
- ★ On the answers sheet, the box corresponding to the chosen answer (A to D) must be checked or filled properly with a dark blue or black pen.
- ★ If necessary, make corrections carefully. The answer must be clearly identifiable and unique. If this is not the case, it will be counted as wrong.

### Example:

	Fine				Bad				
	A	B	C	D	A	B	C	D	
Q1	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Q16	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Q2	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Q17	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Q3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Q18	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Q4	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Q19	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Q5	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Q20	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

**In order not to waste your chances, answer all questions.**

**There are no negative points.**

**There is only one correct answer.**

### ATTENTION:

Unless otherwise specified, supply and demand are represented by curves with the usual slope.

### Question 1

Regarding the two large schools of economic thought, which of the following is correct ?

- (a) According to Keynesian economists that governments should only use monetary policies because delays are too long when implementing fiscal policies.
- (b) According to Keynesian economists government intervention to stabilize the economy is only justified in the presence of a recession.
- (c) According to Monetarist economists government failures are likely to be larger than market failures.
- (d) Both Keynesian and Monetarist economists think that in the case of an economic slowdown only the automatic stabilizers are efficient.

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Réponse (c)

### Question 2

The difference between GDP and GNP is that :

- (a) unlike GDP, GNP does not include exports of goods and services.
- (b) unlike GDP, GNP includes interest payments received by national investors which have bought shares of a foreign company.
- (c) unlike GNP, GDP is valued at factor prices and not at market prices.
- (d) unlike GNP, GDP does not include physical capital depreciation.

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Réponse (b)

### Question 3

The following table summarizes information regarding a country that produces only wine and cheese.

Year	Price of Wine	Quantity of Wine (liters)	Price of Cheese	Quantity of Cheese (kilos)
2000	1	100	2	50
2001	1	200	2	100
2002	2	200	4	100

Which of the following is correct ?

- (a) Nominal GDP doubled every year.
- (b) Real GDP with base in 2000 doubled each year.
- (c) Each year, the growth rate of nominal GDP is twice the growth rate of real GDP with base in 2000.
- (d) Each year, the growth rate of nominal GDP is the same as the growth rate of real GDP with base in 2000.

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Réponse (a)



#### Question 4

Consider again the following table

Year	Price of Wine	Quantity of Wine (liters)	Price of Cheese	Quantity of Cheese (kilos)
2000	1	100	2	50
2001	1	200	2	100
2002	2	200	4	100

Which of the following is correct ?

- (a) The GDP deflator with base in 2000 is constant over the whole period.
- (b) Each year the growth rate of the GDP deflator with base in 2000 is equal to the growth rate of nominal GDP.
- (c) Each year the growth rate of the GDP deflator with base in 2000 is equal to the growth rate of real GDP with base in 2000.
- (d) The GDP deflator with base in 2000 is equal to 200 in 2002.

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Réponse (d)

#### Question 5

The Consumer Price Index (CPI)

- (a) is a Paasche price index.
- (b) evaluates the evolution through time of the price of goods produced in the economy.
- (c) is calculated using a basket of goods for which the composition is adjusted every year to take into account the increase in the quality of goods consumed.
- (d) None of the above is correct.

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Réponse (d)

#### Question 6

At the beginning of the year, the annual nominal interest rate on government bonds (riskless investment) is 10% and the current inflation rate is 12%. You have 1000 CHF at your disposal which just cover the cost of the bike that you need. What do you decide to do ?

- (a) You buy the government bonds and push forward to next year the purchase of the bike.
- (b) You do nothing ; you put the money under the mattress and wait until next year to buy the bike.
- (c) You buy the bike now.
- (d) You are indifferent (from a strictly financial point of view!) between purchasing the bike now and investing 1000 CHF in government bonds during a year.

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Réponse (c)



### Question 7

Consider the following production function :  $Y = A \cdot F(L, K)$  where  $A$  corresponds to technological knowledge,  $L$  is labor and  $K$  is physical capital. The function  $F$  exhibits constant returns to scale, and decreasing marginal factor returns. Which of the following is correct ?

- (a) If we double the quantity of labor **or** the quantity of physical capital, production will double.
- (b) If technological knowledge increases and physical capital doubles, it is impossible for production to double. For it to double, we would need the quantity of labor also to double.
- (c) If we double the quantity of physical capital, a future increase by one unit of physical capital will lead to an increase in production which is smaller than the increase we would have observed before capital had doubled.
- (d) None of the above is correct.

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Réponse (c)

### Question 8

The equilibrium wage in the labor market is 30. Which of the following is **false** ?

- (a) There is no structural unemployment, but there could be frictional unemployment.
- (b) If the government fixes a minimum wage of 25, neither the wage nor the number of workers employed will be affected.
- (c) If the government fixes a minimum wage of 25 and the productivity of labor falls, structural unemployment will be observed.
- (d) If the minimum wage is set at 25, an increase of the minimum wage to 30 would not result in a decrease in the level of employment.

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Réponse (c)

### Question 9

In country A the number of unemployed workers is 500, and the number of employed workers is 2000. In country B the number of employed workers is 30'000, and the labor force is 40'000. Which of the following is correct ?

- (a) The unemployment rate is 20% in country A and 25% in country B.
- (b) The unemployment rate is 25% in country A, and the number of unemployed workers is 10'000 in country B.
- (c) The labor force is 2'500 in country A, and the unemployment rate is 33% in country B.
- (d) The unemployment rate is 25% in country A, and is even higher in country B.

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Réponse (a)



### Question 10

Which of the following statements regarding the Swiss National Bank (SNB) is **correct** ?

- (a) A decline in gold reserves of the SNB will lead to a depreciation of the Swiss Franc.
- (b) The SNB has the monopoly in terms of money supply and can indirectly control the behavior of commercial banks.
- (c) The SNB adjusts money demand in order to reach a low level of inflation.
- (d) The SNB is a democratic entity totally under the control of the Federal Council (executive branch).

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Réponse (b)

### Question 11

According to Milton Friedman

"inflation is always and everywhere a monetary phenomenon."

This paradigm refers to the fact that :

- (a) in the long run money is neutral.
- (b) in the long run nominal variables equal real variables.
- (c) monetary policy is an efficient stabilization policy instrument because its effects last in the long run.
- (d) the Central Bank can influence the real economy only in the long run.

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Réponse (a)

### Question 12

What happens if the government creates money to finance a budget deficit ?

- (a) There are no consequences for the economy.
- (b) There is an inflation tax and agents do not modify their real money demand.
- (c) The more money that is created by the government, the larger is the inflation tax, and the smaller are the seignorage revenues.
- (d) The more money that is created by the government, the larger is the inflation tax, and the smaller is real money demand.

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Réponse (d)

### Question 13

The Central Bank undertakes an expansionary open-market operation. What are the consequences for the money market ? This will create...

- (a) a positive money demand shock, and therefore will lead to an increase in interest rates.
- (b) a positive money supply shock and therefore will lead to an increase in interest rates.
- (c) a positive money supply shock and therefore will lead to a decline in interest rates.
- (d) a positive money demand shock and therefore will lead to a decline in interest rates.



Réponse (c)

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### Question 14

Which of the following will certainly lead to an increase of the interest rate in the market for loanable funds ?

- (a) An increase in the government budget deficit.
  - (b) The elimination of an investment subsidy, accompanied by the introduction of policies that encourage household savings.
  - (c) A change in fiscal policies that encourages household savings.
  - (d) A tax reduction on interest revenues from savings, accompanied by a tax reduction on investment.
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Réponse (a)

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### Question 15

What is the economic phenomenon called "crowding out" ?

- (a) When the number of mutual funds increases, the economic activity by private banks as financial intermediaries falls.
  - (b) When the government increases taxes on investment, which will lead to a decline in private investment.
  - (c) When the government borrows to finance its budget deficit, which reduces the amount of loanable funds available to finance private investment. There is therefore a decline in private investment.
  - (d) None of the above.
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Réponse (c)

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### Question 16

You have at your disposal the following information regarding an economy :

Private savings :	+60
Government expenditure - Government Revenue :	+20
Exports :	+70
Imports :	+35

Which of the following is correct ?

- (a) The country is a net exporter and investments are equal to 15.
  - (b) The budgetary surplus finance the lack of private savings.
  - (c) The budgetary surplus is 20 and investment are equal to 5.
  - (d) None of the above.
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Réponse (d)

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### Question 17

In order to influence voters, Nicos, a well-known politician, accused a neighboring country of depreciating its currency in order to increase its competitiveness. You also know that the two countries have experienced the same inflation rate, and that the purchasing power parity is always verified. Which of the following is correct ?

- (a) There has only been a nominal depreciation, and the real exchange rate could have only increased by a small margin.
- (b) There is no link between competitiveness and the price of exports.
- (c) There is no real or nominal depreciation of the currency.
- (d) There was real depreciation, and the nominal exchange rate must have moved abruptly.

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Réponse (c)

### Question 18

Which of the following is correct in an open economy ?

- (a) Private savings and national savings tend to be smaller.
- (b) World savings are entirely allocated to world investment.
- (c) There is exactly the same number of net exporters than net importers.
- (d) World Savings finance the trade balance deficit.

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Réponse (b)

### Question 19

In order to fight against an economic downturn, the government decides to increase considerably its expenditure. Assuming that markets were initially in equilibrium, what will we observe in the markets for loanable funds and foreign currency, as well as in terms of net capital outflows ?

- (a) The real interest rate will fall, and the excess supply of foreign capital will lead to a declining trade balance.
- (b) The real interest rate will fall, which in turn will lead to capital outflows and a depreciation of the domestic currency.
- (c) The interest rate will increase, leading to a decline in net capital outflows, and an increase in the trade balance.
- (d) The interest rate will increase, leading to a more attractive domestic market, which will lead to an appreciation of the real exchange rate.

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Réponse (d)

### Question 20

Which of the following **will not cause** a shift in the long run aggregate supply curve ?

- (a) An increase in the stock of capital available.
- (b) A technological innovation.
- (c) An increase of the labor force.
- (d) An increase in government expenditure.



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Réponse (d)

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### Question 21

After some poor performances at the European level in terms of education, the government of a member country decides to increase its expenditure in order to hire new public employees. Assuming that this country is initially at its long run equilibrium level, and using the aggregate demand/aggregate supply model, what is likely to be observed in the short-run ?

- (a) Prices will increase ; production will increase.
- (b) Prices will increase ; production will fall.
- (c) Prices will fall ; production will increase.
- (d) Prices will fall ; production will fall.

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Réponse (a)

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### Question 22

After the stock market crash of 1929, economic uncertainty led households to increase their savings. With the help of the aggregate demand/aggregate supply model, could you determine which were the consequences of this change in household behavior ?

- (a) In the short-run this led to a decline in income, and then in the long run to a decline in prices.
- (b) In the short-run this led to a decline in income, and then in the long run to an increase in prices.
- (c) In the short-run this led to an increase in income, and then in the long run income came back to its full employment level.
- (d) In the long-run income was not affected, but prices were higher.

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Réponse (a)

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### Question 23

An advantage of an active fiscal stabilization policy is :

- (a) It can quickly and easily be put in place, which limits the negative effects of an economic crisis.
- (b) It can break the vicious circle of self-fulfilling pessimistic expectations, which are often at the origin of an economic crisis.
- (c) It is more efficient than monetary policy because it is easier to predict.
- (d) It has no impact on financial markets.

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Réponse (b)

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### Question 24

Regarding the Keynesian multiplier of government expenditure, which of the following is **false** :

- (a) The Keynesian multiplier of government expenditure is a function of the marginal propensity to consume.
- (b) The Keynesian multiplier of government expenditure is larger in absolute value than the tax multiplier.
- (c) If the marginal propensity to consume is low, the Keynesian multiplier of government expenditure is large.
- (d) The Keynesian multiplier of government expenditure illustrates the benefits from pursuing expansionary budgetary policies in the short-run.

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Réponse (c)

### Question 25

The marginal propensity to save is 0.1. An increase in investments of 10 will lead to an increase in aggregate demand of :

- (a) 100.
- (b) 90.
- (c) 10.
- (d) 1.

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Réponse (a)

### Question 26

When the impact of "crowding out" is smaller than the impact of the Keynesian multiplier, an increase in government expenditure :

- (a) leads to an increase in aggregate demand which is larger than the increase in government expenditure.
- (b) leads to an increase in aggregate demand which is smaller than the increase in government expenditure.
- (c) has no impact on aggregate demand.
- (d) None of the above is correct.

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Réponse (a)

### Question 27

In a liquidity trap, which of the following is **false** ?

- (a) Money demand is perfectly elastic.
- (b) Interest rates are not affected by an increase in money supply.
- (c) Monetary policies are inefficient.
- (d) Fiscal policies are inefficient.

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Réponse (d)



**Question 28**

Which of the following is correct ?

- (a) In the long run the cost of deflation is higher than in the short run.
- (b) A contractionary monetary policy which aims at reducing inflation may temporarily lead to a decline in unemployment.
- (c) The Central Bank should aim at controlling money supply rather than the inflation rate.
- (d) A credible monetary policy is essential for agents to rapidly adjust their expectations.

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Réponse (d)

**Question 29**

During the housing boom in the United States, expectation regarding higher prices led to :

- (a) a shift to the left in the short-run Phillips curve.
- (b) a shift to the right in the long-run Phillips curve.
- (c) a shift to the right in the short-run Phillips curve.
- (d) a shift to the left in the long-run Phillips curve.

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Réponse (c)

**Question 30**

The higher the credibility of the Central Bank when it announces a reduction in money supply,

- (a) the larger the unemployment rate in the short-run.
- (b) the larger the unemployment rate in the long-run.
- (c) the slower will be the adjustment towards the long-run unemployment rate.
- (d) the faster will be the adjustment towards the long-run unemployment rate.

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Réponse (d)

