Introductory Economics

Introdução à Economia

Problems

2021/2022

3rd Quarter (P3)

5. Economic Policy

5. Política Económica

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5.1 Classify the following sentences as True or False. Justify. (Adapted from CORE, The Economy)

a. The marginal propensity to consume (MPC) is normally less than 1 as some households can smooth their consumption.
b. The MPC is the proportion of current income spent on consumption, C/Y.
c. The decrease of the interest rate increases the investment.

5.2 Classify the following sentences as True or False. Justify. (Adapted from CORE, The Economy)

a. Tax policy is the only way to dampen fluctuations in the economy using fiscal policy.
b. Maintaining fiscal balance in a recession helps to stabilize the economy.
c. A fiscal stimulus can be implemented by raising spending to directly increase demand, or by cutting taxes to increase private sector demand.
d. Automatic stabilizers refer to the fact that economic shocks are partly offset by households smoothing their consumption in the face of variable income.

5.3 Quantitative Easing (QE) is a recent type of monetary policy, introduced after the 2008 financial crisis. What is its objective? How does it work?

5.4 The table below illustrates the fiscal and monetary policy mix used during the US recession in 2001 when, after a decade of expansion, the growth rate of the US economy slowed. (Adapted from CORE, The Economy)

		2000	2001	2002	2003
Real gross gomestic product (annual % change)		4.1	0.9	1.8	2.8
Contribution to % change in GDP	Change in non-residential investment	1.15	−1.2	−0.66	0.69
	Change in residential investment	−0.07	0.09	0.39	0.66
	Change in government expenditure	0.10	0.88	0.74	0.36
	Change in other contributions	2.92	1.13	1.33	1.09
Federal Reserve nominal interest rate (annual average, %)		6.24	3.89	1.67	1.13
Unemployment rate (%)		4	4.47	5.8	6
Inflation rate (%)		3.4	2.8	1.6	2.3

a. By how much did the US economy slow down from 2000 to 2001?

b. Describe the monetary and fiscal policies used to increase demand and, consequently, GDP. Did these policies work in the planned way? Justify.
c. In which year, 2002 or 2003, did fiscal policy give a stronger contribution to US recovery?
d. Are indicators for the labor market in line with the rest of the figures presented?
e. How do you interpret the inflation rate figure recorded in 2002?

5.5 What are inflation targeting policies? How do they work?

5.6 The Government is an economic actor. It is the only entity within a territory that can dictate what people must do/not do and can legitimately use force and restraints on an individual's freedom to achieve that end.

a. How does Government differ from other economic actors?
b. How can Governments adopt policies to address the inefficiency and unfairness that may result from private economic interactions?
c. Should Governments be allowed to act freely, without constraints, in order to address inefficiency and unfairness? Why?

5.7 Political Institutions are one of the most important parts of Governments. Political systems, such as Democracy, are composed of political Institutions.

a. What are political institutions?
b. What are the political institutions of Democracy?
c. Why do political parties often adopt similar platforms?
d. Do all parties try to adopt similar platforms? Why?

5.8 Even though Democracy is considered to be one of the best political systems, it also has some flaws associated. What are the most common ones?