

# KIA Fresh Graduates Program - Economics

## Problem Set 5

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1. As the reserve requirement increases, the money multiplier:
  - A. increases.
  - B. decreases.
  - C. remains the same.
2. The following exhibit shows the supply and demand for money:

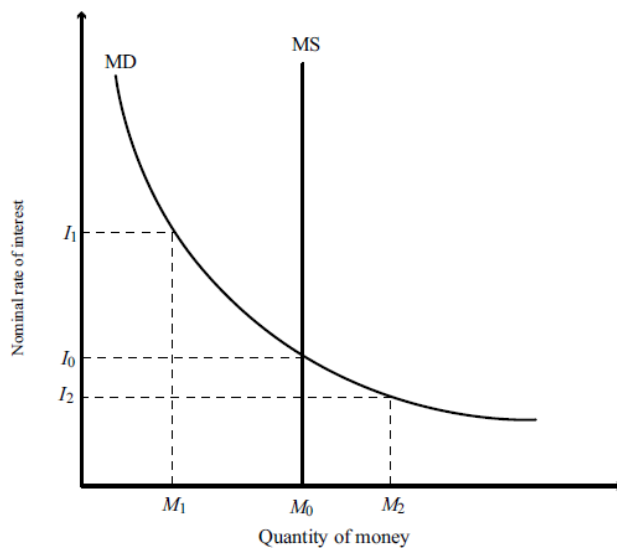


Figure 1: Money Supply and Demand

There is an excess supply of money when the nominal rate of interest is:

- A.  $I_0$ .
  - B.  $I_1$ .
  - C.  $I_2$ .
3. According to the theory of money neutrality, money supply growth does not affect variables such as real output and employment in:
    - A. the long run.

- B. the short run.
  - C. the long and short run.
4. Which action is a central bank least likely to take if it wants to encourage businesses and households to borrow for investment and consumption purposes?
- A. Sell long-dated government securities.
  - B. Purchase long-dated government treasuries.
  - C. Purchase mortgage bonds or other securities.
5. A central bank's repeated open market purchases of government bonds:
- A. decreases the money supply.
  - B. is prohibited in most countries.
  - C. is consistent with an expansionary monetary policy.
6. A prolonged period of an official interest rate very close to zero without an increase in economic growth most likely suggests:
- A. quantitative easing must be limited to be successful.
  - B. there may be limits to the effectiveness of monetary policy.
  - C. targeting reserve levels is more important than targeting interest rates.
7. Which of the following is a limitation on the ability of central banks to stimulate growth in periods of deflation?
- A. Ricardian equivalence.
  - B. The interaction of monetary and fiscal policy.
  - C. The fact that interest rates cannot fall significantly below zero.
8. Which of the following best represents a contractionary fiscal policy?
- A. Public spending on a high-speed railway.
  - B. A temporary suspension of payroll taxes.
  - C. A freeze in discretionary government spending.
9. A "pay-as-you-go" rule, which requires that any tax cut or increase in entitlement spending be offset by an increase in other taxes or reduction in other entitlement spending, is an example of which fiscal policy stance?
- A. Neutral.

- B. Expansionary.
- C. Contractionary.

10. Which statement regarding fiscal deficits is most accurate?

- A. Higher government spending may lead to higher interest rates and lower private sector investing.
- B. Central bank actions that grow the money supply to address deflationary conditions decrease fiscal deficits.
- C. According to the Ricardian equivalence, deficits have a multiplicative effect on consumer spending.

11. Which statement regarding fiscal policy is most accurate?

- A. To raise business capital spending, personal income taxes should be reduced.
- B. Cyclically adjusted budget deficits are appropriate indicators of fiscal policy.
- C. An increase in the budget surplus is associated with expansionary fiscal policy.

12. Which policy alternative is most likely to be effective for growing both the public and private sectors?

- A. Easy fiscal/easy monetary policy.
- B. Easy fiscal/tight monetary policy.
- C. Tight fiscal/tight monetary policy.

13. Suppose the cost of producing tea relative to copper is lower in Tealand than in Copperland. With trade, the copper industry in Copperland would most likely:

- A. expand.
- B. contract.
- C. remain stable.

14. A country has a comparative advantage in producing a good if:

- A. it is able to produce the good at a lower cost than its trading partner.
- B. its opportunity cost of producing the good is less than that of its trading partner.
- C. its opportunity cost of producing the good is more than that of its trading partner.

15. Suppose Mexico exports vegetables to Brazil and imports flashlights used for mining from Brazil. The output per worker per day in each country is as follows:

	Flashlights	Vegetables
Mexico	20	60
Brazil	40	80

Which country has a comparative advantage in the production of vegetables and what is the most relevant opportunity cost?

- A. Brazil: 2 vegetables per flashlight.
- B. Mexico: 1.5 vegetables per flashlight.
- C. Mexico: 1/3 flashlight per vegetable.

16. Suppose three countries produce bananas and pencils with output per worker per day in each country as follows:

	Bananas	Pencils
Mexico	20	40
Brazil	30	90
Canada	40	160

Which country has the greatest comparative advantage in the production of bananas?

- A. Canada.
- B. Brazil.
- C. Mexico.

17. Germany has much more capital per worker than Portugal. In autarky each country produces and consumes both machine tools and tourism. Production of machine tools is relatively capital intensive whereas tourism is labor intensive. According to the Heckscher–Ohlin model, when trade opens:

- A. Germany should export machine tools and Portugal should export tourism.
- B. Germany should export tourism and Portugal should export machine tools.
- C. Germany should produce only machine tools and Portugal should produce only tourism.

18. Which type of trade restriction would most likely increase domestic government revenue?

- A. Tariff.
- B. Import quota.
- C. Export subsidy.

19. If Brazil and South Africa have free trade with each other, a common trade policy against all other countries, but no free movement of factors of production between them, then Brazil and South Africa are part of a:

- A. customs union.
- B. common market.
- C. free trade area (FTA).

20. The sale of mineral rights would be captured in which of the following balance of payments components?

- A. Capital account.

- B. Current account.
- C. Financial account.

21. During the most recent quarter, a steel company in South Korea had the following transactions:

- Bought iron ore from Australia for AUD50 million.
- Sold finished steel to the United States for USD65 million.
- Borrowed AUD50 million from a bank in Sydney, Australia.
- Received a USD10 million dividend from US subsidiary.
- Paid KRW550 million to a Korean shipping company.

Which of the following would be reflected in South Korea's current account balance for the quarter?

- A. The loan.
- B. The shipping.
- C. The dividend.

22. Which of the following most likely contributes to a current account deficit?

- A. High taxes.
- B. Low private savings.
- C. Low private investment.

23. Which of the following international trade organizations regulates cross-border exchange among nations on a global scale?

- A. World Bank Group (World Bank).
- B. World Trade Organization (WTO).
- C. International Monetary Fund (IMF).

24. Which of the following international trade organizations has a mission to help developing countries fight poverty and enhance environmentally sound economic growth?

- A. World Bank Group (World Bank).
- B. World Trade Organization (WTO).
- C. International Monetary Fund (IMF).

25. Which of the following organizations helps to keep global systemic risk under control by preventing contagion in scenarios such as the 2010 Greek sovereign debt crisis?

- A. World Bank Group (World Bank).
- B. World Trade Organization (WTO).
- C. International Monetary Fund (IMF).