

**UC Berkeley Haas School of Business**  
**MBA201B Macroeconomics in the Global Economy**  
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**Final Exam**

*Indicate the correct answer(s) and use the “box” below to explain your reasoning. If you answer the question correctly, we will not look at the box, but if you make any mistake, we will look at the box content to potentially award partial credit.*

*You are allowed to use a non-programmable calculator and a ONE-SIDED one-pager for formulas.*

*For “choose all that apply” questions: you will receive 0.25 for each correct answer that is marked and for each incorrect answer that is left blank. Example: if a. and b. are the correct ones and you choose a. and c. then your score will be 0.5 (you left d. blank and you marked a.)*

1. You are asked by the government to evaluate the effect of some new policies on economic growth. Over time, a group of individuals who have historically faced discrimination, and who were previously very unlikely to become scientists, have increasingly entered scientific, technical, and professional fields as legal discrimination has fallen. What effect will this have on economic growth? Choose one.
  - a. Economic growth will not change because the overall number of scientists has not changed, just the composition of scientists
  - b. Economic growth will decrease as barriers to entry in technical professions gave individuals incentives to innovate
  - c. Economic growth will increase as the decrease in discrimination leads to a better allocation of talent across occupations.
  - d. There is not enough information to tell

2. In 2007, the government of Sweden implemented a decrease in the payroll tax that is nominally paid by firms on the wages that they pay to workers, but only for young workers aged between 19 and 25 years old. What effect will this have on the employment rate? Choose one.
- a. The employment rate in Sweden will be higher
  - b. The employment rate in Sweden will be lower
  - c. The employment rate in Sweden will be unchanged
  - d. There is not enough information to tell

3. This question asks you to use the supply and demand model of the labor market to consider labor market effects of new innovations on wage gaps between workers with and without a college degree. Suppose that scientists in South Korea develop a new type of artificial intelligence, that can do several writing tasks that were previously done by college-educated workers. At the same time, increased spending on tradeable goods increases demand for workers who transport goods, which is traditionally done by workers without a college degree. What effect will this have on the wage gap between workers with and without a college degree? Choose one.
- a. Wages of college and non-college workers will both rise
  - b. Wages of college workers will rise, but those of non-college workers will fall
  - c. Wages of college workers will fall, but those of non-college workers will rise
  - d. Wages of college and non-college workers will both fall

4. In Italy, the government introduces a short-term work program, where the government pays some of the salary for workers in firms that are facing negative economic shocks in exchange for workers taking reductions in the hours that they actually work, saving the firm some money that they would have otherwise had to pay in wages. What effect will this have on unemployment? Choose one.
- a. It will increase frictional unemployment

- b. It will decrease frictional unemployment
- c. It will increase structural unemployment
- d. It will decrease structural unemployment

5. France implements a new policy where firms have to pay workers that they fire a severance equal to half of the workers wage for an entire year. This policy will \_\_\_\_\_ frictional unemployment?

Choose one.

- a. Have no impact on
- b. Increase
- c. Decrease
- d. There is not enough information to tell

6. You are asked to consult for India, which has just raised tariffs on a number of products. The government official says that the government has raised lots of money in tariffs, so the policy is a great success. How can you respond to this statement (select all that apply)?

- a. Consumers are also better off because they preferred the domestic goods anyway
- b. Consumers are worse off because they have to pay higher prices on their goods
- c. Domestic producers under the policy are worse off because they have lower profits
- d. This does not take into account the dead-weight loss of the policy

7. When is the US more likely to benefit from imposing a tariff on a given product? Choose one.
- a. When it imposes the tariff on a small country on a product produced by many other countries
  - b. When the supply of that product in the US is perfectly inelastic (i.e. vertical)
  - c. When the US is a large consumer of that product
  - d. When the US imposes a large tariff

8. Argentina is considering going back to the Convertibility Law that fixed the exchange rate of the peso to the US dollar. This is likely to (choose all that apply):
- a. Increase debt sustainability, if a stable peso would curb inflation and promote growth
  - b. Decrease debt sustainability, if other currencies suddenly depreciate and Argentina loses competitiveness in the world market
  - c. Increase debt sustainability, if a stable peso increases imports
  - d. Decrease debt sustainability, if the central bank can no longer print pesos to finance deficits

9. In response to a global pandemic, the Central Bank in Malaysia cuts interest rates (which affects the government's cost of borrowing) and the President announces that no individual has to pay taxes during the pandemic year. What effect will this have on debt sustainability? Choose one.
- a. Increase debt sustainability

- b. Decrease debt sustainability
- c. No change in debt sustainability
- d. Not enough information to tell

10. Suppose the US economy is experiencing an expansion and the FED wants to fight rising inflation. To do this, the FED targets a higher Federal Funds Rate. Which kind of conventional operation will help the FED comply with its objective? Select all that apply.

- a. Sell government securities to commercial banks
- b. Purchase government securities from commercial banks
- c. Increase reserve requirements applied to commercial banks
- d. Increase the interest rate on reserves held by commercial banks at the FED

11. According to the quantity theory of money, which annual money growth rate should the Central Bank target to obtain a constant 4% annual inflation rate if money velocity is constant and real output grows by 3% per year? Choose one.

- a. 1 %
- b. 7%
- c. 4%
- d. 3%

12. Which of the following events do not contribute to 2021 US GDP accounting? Select all that apply.

- a. A farmer produces and sells 10,000 pounds of tomatoes in California in 2021
- b. Christina buys an old apartment in New York on November 31<sup>st</sup>, 2021
- c. General Motors sells 1,000 cars in 2021 that were produced in 2020
- d. A law firm assists a corporate client in a merger from March 1<sup>st</sup>, 2021, to October 31<sup>st</sup>, 2021

13. In many countries (e.g., the US, Japan, Italy, etc.) the population is rapidly aging. Suppose old individuals save more than young individuals for a given real interest rate. Aging of the population does not affect the investment behavior of individuals and firms. According to the saving-investment framework, what will happen to the real interest rate in equilibrium, as the population ages? Choose one.

- a. It will remain constant
- b. It will increase
- c. It will decrease
- d. The impact on the real interest rates is ambiguous

14. Inflation typically hurts... Select all that apply.

- a. Workers more than retired individuals
- b. Retired individuals more than workers
- c. Wealthy individuals more than poor individuals
- d. Borrowers more than lenders

15. Consumers' and firms' confidence also depend on beliefs about global political stability. Suppose a war occurring in Eastern Europe decreases consumers' and firms' confidence in Western Europe. Assume that no other variable at play is affected by the war. What will happen according to IS-MP and AD-IA-LR frameworks? Choose one.

- a. As confidence decreases, the IS curve shifts to the right and the AD curve shifts to the right. Fearing inflationary pressures, the ECB increases interest rates, the MP curve shifts to the right. In equilibrium, output and inflation are the same as before, while the real interest rate is higher.
- b. As confidence decreases, the IS curve does not move, while the AD curve shifts to the right. Fearing inflationary pressures, the ECB increases interest rates, the MP curve shifts to the right. In equilibrium, output and inflation are the same as before, while the real interest rate is higher.
- c. As confidence decreases, the IS curve shifts to the left and the AD curve shifts to the left. Fearing deflationary pressures, the ECB decreases interest rates, the MP curve shifts to the right. In equilibrium, output is the same, inflation is lower, while the real interest rate is lower.
- d. As confidence decreases, the IS curve shifts to the left and the AD curve shifts to the left. The ECB does not adjust interest rates. In equilibrium, output is lower, inflation is lower, and the real interest rate is the same as before.

16. Suppose the US government implements a generalized tax cut addressed to US individuals. The tax cut is supposed to be permanent. Using the IS-MP and AD-IA-LR frameworks, how would the new long-run equilibrium of the US economy be characterized relative to the one before the tax cut? Choose one.

- a. Output will be higher, the inflation rate will be the same, and the interest rate will be higher.
- b. Output will be higher, the inflation rate will be higher, and the interest rate will be the same.
- c. Output will be the same, the inflation rate will be higher, and the interest rate will be higher.
- d. Output will be the same, the inflation rate will be higher, and the interest rate will be the same.

17. The US economy is hit by a sudden increase in the inflation rate. Using the IS-MP and the AD-IA-LR frameworks, which of the following scenarios best describes the dynamic response of the US economy? Choose one.

- a. As inflation rises, the FED responds by increasing the real interest rate to fight inflation. As inflation returns to its initial level, the FED decreases the real interest rate back to its initial level. The US economy experiences a temporary recession.
- b. As inflation rises, the FED responds by decreasing the real interest rate to stimulate demand. As inflation returns to its initial level, the FED increases the real interest rate back to its initial level. The US economy experiences a temporary expansion.
- c. As inflation rises, the FED does not respond. The US economy experiences a temporary recession.
- d. As inflation rises, the FED does not respond. The US economy experiences a temporary expansion.



18. Qatar is a small open economy with fixed exchange rates against the US dollar. Suppose the US experiences an expansion. Fearing inflationary pressures, the FED raises real interest rates in the US,  $r^*$ . What happens to the economy of Qatar? Choose one.

- a. As  $r^*$  rises, the dollar becomes more attractive. Therefore, the dollar appreciates against the Qatari rial. Qatari net exports increase, and Qatar experiences an expansion.
- b. As  $r^*$  rises, the dollar becomes less attractive. To keep exchange rate stability, the CB of Qatar must decrease  $r$ . As  $r$  decreases, investments increase, and Qatar experiences an expansion.
- c. As  $r^*$  rises, the dollar becomes less attractive. Therefore, the dollar depreciates against the Qatari rial. Qatari net exports decrease, and Qatar experiences a recession.
- d. As  $r^*$  rises, the dollar becomes more attractive. To keep exchange rate stability, the CB of Qatar must increase  $r$ . As  $r$  increases, investments decrease, and Qatar experiences a recession.

19. A contraction in government spending will decrease output more severely... Select all that apply.

- a. In an open economy living in a world of flexible exchange rates relative to closed economy.
- b. In a closed economy relative to an open economy living in a world of flexible exchange rates.
- c. In an open economy living in a world of fixed exchange rates relative to an open economy living in a world of flexible exchange rate.
- d. In an open economy living in a world of flexible exchange rates relative to a closed economy.

20. Chile is a small open economy with a floating exchange rate against the US dollar. Suppose Chile experiences political instability that makes the risk premium  $\theta$  increase. Select all that apply, according to the IS-MP framework for open economies.

- a. The Chilean Peso will appreciate against the US dollar.

- b. The Chilean Peso will depreciate against the US dollar.
- c. Chile will experience a recession.
- d. Chile will experience an expansion.

21. The majority of the gender wage gap (the difference in wages between men and women) is explained by (choose one):
- a. The tendency of women to work in jobs with fewer hours and that pay much less on a per-hour basis.
  - b. The tendency of women to work more in occupations that pay less than men.
  - c. The increasing prevalence of bonus pay vs fixed salaries.
  - d. The fact that men have, on average, higher education.

22. Germany in 2015 increased the minimum wage at the national level. Several rural regions saw an increase in employment, relative to urban areas. How can you explain this result in light of the theories we saw in class? Choose one
- a. Urban labor markets have less unemployment to begin with
  - b. Rural areas tend to have fewer employers than urban areas
  - c. Rural areas tend to have higher wages to begin with, to attract workers who would otherwise not want to live there
  - d. None of the above

23. M1 is destroyed in the economy whenever (select all that apply):

- a. I withdraw cash from my bank account
- b. I burn dollar bills
- c. I pay my credit card bill
- d. The CB buys mortgage-backed securities