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.

If the question says "Select one" you will get 1 point if you select the correct answer and 0 points otherwise. If you select more than one, then you will get zero automatically.

If the question says "Select two" you will get 0.5 point for each correct answer, as long as you select two. If you select more than two, then you will get zero automatically.

1. In response to the increasing global tensions, the US government decides to increase its military spending by $10,000 per capita. Output per capita in the US increases by $11,000. What is the fiscal multiplier? Choose one.

    a. 0.9
    b. 1.1
    c. $1,000
    d. 0.1

2. According to the quantity theory of money… Choose one.

    a. Money velocity is constant.
    b. Money growth causes deflation.
    c. Nominal GDP grows at the rate of money growth.
    d. Inflation increases with the growth rate of money supply.

3. Switzerland is a small open economy with a flexible exchange rate against the Euro. The current inflation rate in Switzerland is substantially lower than the one prevailing in the Eurozone. Suppose that, as a result, the European Central Bank raises interest rates to fight Eurozone inflation, while the Swiss Bank does not. According to the IS-MP framework for

open economies under flexible exchange rates, how do higher interest rates in the Eurozone impact Swiss output and interest rates? Choose one.

a. Switzerland will experience a decrease in output and a decrease in interest rates.
b. Switzerland will experience an increase in output and a decrease in interest rates.
c. Switzerland will experience an increase in output and an increase in interest rates.
d. Switzerland will experience a decrease in output and an increase in interest rates.

4. Suppose you have the choice to use either fiscal policy or monetary policy to stimulate output in a small open economy that is experiencing a recession. What would you do, under different exchange rate regimes? Choose two.

    a. Use fiscal policy under flexible exchange rates.
    b. Use monetary policy under fixed exchange rates.
    c. Use fiscal policy under fixed exchange rates.
    d. Use monetary policy under flexible exchange rates.

5. Which of the following statements about the IS-MP and AD-IA-LR frameworks is NOT correct? Choose one.

    a. If a new head of the Central Bank is appointed who thinks that interest rates should be lower for any given level of output, then the AD curve will shift to the right.
    b. If the government cuts military spending, the IS curve will shift to the left.
    c. Higher investments in response to lower interest rates will shift the IS curve to the right.
    d. Changes in inflation result in shifts of the MP curve.

6. Panama's currency is pegged to the US dollar. Given high inflation in the US, the FED decides to raise interest rates, r*. Which of the following options best describes the impact on Panama's economy? Choose one.

    a. The increase in r* will make the dollar appreciate relative to Panama's currency. Therefore, Panama's net exports will increase, and Panama will experience a boom.
    b. The increase in r* will make the dollar depreciate relative to Panama's currency. Therefore, Panama's net exports will decrease, and Panama will experience a recession.
    c. The increase in r* forces Panama's Central Bank to increase r. Therefore, Panama will experience a recession.
    d. The increase in r* forces Panama's Central Bank to decrease r. Therefore, Panama will experience a boom.

7. An increase in government spending will have a positive effect on debt sustainability (i.e. will make debt more sustainable) if… Choose two.

    a. It is offset by an increase in taxes greater than the increase in spending.
    b. The fiscal multiplier is higher than 0.
    c. The fiscal multiplier is lower than 1.
    d. The fiscal multiplier is higher than 1.

8. In 1973, the Italian government implemented a pension reform that allowed women with at least one kid working in the public sector to retire after 14 years, 6 months, and 1 day of work. According to the standard demand-supply model of the labor market studied in class, which immediate effect do you expect on women's employment and wages? Choose one.

    a. Employment increases and wages decrease.
    b. Employment decreases and wages increase.
    c. Employment increases and wages increase.
    d. Employment decreases and wages decrease.

9. A high dispersion of the marginal product of capital across firms in a country indicates… Choose two.

   a. Low capital misallocation.
   b. High capital misallocation.
   c. Efficient capital markets.
   d. Inefficient capital markets.

10. Suppose COVID negatively affects consumption and investments, but the government does not increase spending. Assume that potential output decreases and stays at a lower level persistently. According to the AD-IA-LR model what happens eventually to inflation? Choose two.

    a. Inflation increases if the shock to aggregate demand is smaller than the shock to potential output.
    b. Inflation decreases if the shock to aggregate demand is smaller than the shock to potential output.
    c. Inflation increases if the shock to aggregate demand is larger than the shock to potential output.
    d. Inflation decreases if the shock to aggregate demand is larger than the shock to potential output.

11. Suppose the government invests in a transport infrastructure (e.g., a railway line) that makes migrating from one region to another easier and less costly. Assume this infrastructure has no other effects on the economy. This will likely… Choose two.

    a. Increase frictional unemployment.
    b. Decrease frictional unemployment.
    c. Increase labor supply and decrease wages in previously isolated regions.
    d. Increase labor supply and increase wages in previously isolated regions.

12. Suppose the US government increases taxes for all individuals. The tax increases are made to address debt sustainability and therefore do not have an accompanying change in government spending. Which of the following options better describes the evolution of the US economy according to the IS-MP and the AD-IA-LR frameworks? Choose one.

    a. The IS shifts to the right, causing higher output and higher interest rates in the short run. The AD curve also shifts to the right, causing higher output, with no response in inflation in the very short run.
    b. The IS shifts to the right, causing higher output and higher interest rates in the short run. The AD curve also shifts to the right, causing higher output, and higher inflation in the very short run.
    c. The IS shifts to the left, causing lower output and lower interest rates in the short run. The AD curve also shifts to the left, causing lower output, and lower inflation in the very short run.
    d. The IS shifts to the left, causing lower output and lower interest rates in the short run. The AD curve also shifts to the left, causing lower output, with no response in inflation in the very short run.

13. High unexpected inflation favors… Choose one.

    a. Lenders as opposed to borrowers.
    b. Borrowers as opposed to lenders.
    c. Both borrowers and lenders.
    d. Neither borrowers nor lenders.

14. Suppose only two goods are consumed in the economy: cars and pens. The expenditure share on cars is 0.9. If inflation is 3% and the price of cars has increased by 5%, by how much has the price of pens changed? Choose one.

    a. +1%
    b. +3%
    c. -2%
    d. -15%

15. A new study estimates a higher social cost of carbon. If the EU agrees with this new study, it should respond by… Choose two.

    a. Increasing the number of permits in its Emission Trading Scheme.
    b. Increasing the tariff placed on imports as part of its carbon border adjustment mechanism.
    c. Decreasing the number of permits in its Emission Trading Scheme.
    d. Shifting up its marginal abatement curve.

16. The introduction of a tariff on imported goods… Choose one.

    a. Favors domestic consumers and domestic producers.
    b. Can generate welfare gains in the country imposing the tariff.
    c. Harms domestic consumers and domestic producers.
    d. Favors domestic consumers and harms domestic producers.

17. Which of the following events does not contribute to 2021 US GDP accounting? Choose one.

   a. Julie purchases 0.5 pounds of oranges produced in Florida in 2021.
   b. Julie purchases a house in 2021 that was built in 2021.
   c. Julie purchases a house in 2021 that was built in 2019.
   d. Julie produces several cakes for December 31st, 2021, that remain unsold.

18. Suppose that a new technology becomes available, and firms start investing in that technology to make their production more efficient. At the same time, consumers anticipate the future boom brought by this technology and start consuming more. According to the savings-investment framework, what will happen to the real interest rate? Choose one.

   a. The real interest rate will decrease.
   b. The real interest rate will increase.
   c. The impact on the real interest rate is ambiguous.
   d. Not enough information to tell.

19. According to the Fisher equation… Choose one.

a. Higher inflation increases the real interest rate.
b. Lower inflation decreases the real interest rate.
c. Higher inflation decreases the real interest rate.
d. The nominal interest rate equals the real interest rate.

20. Which of the following phenomena cannot, at least in theory, explain the increase in the college wage premium observed in recent decades in the US? Choose one.

a. Higher immigration of low skilled workers.
b. The availability of technology that are complementary to high skilled workers.
c. Higher minimum wages.
d. Higher international competition in the manufacturing sector.