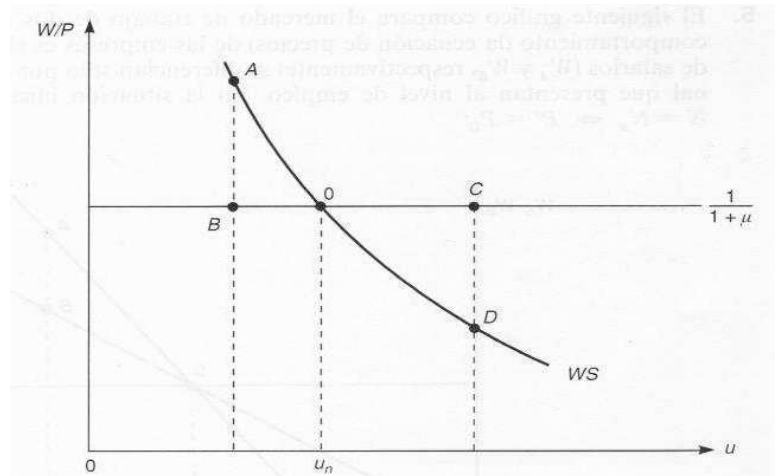


Macroeconomics II - Test

Topic 1: The labor Market

1. A decrease in the unemployment benefit together with an increase in the price of oil, will imply a new equilibrium where:
 - a) Both, the real wage and the natural unemployment rate have increased.
 - b) The real wage has decreased but the natural unemployment rate has increased.
 - c) The real wage has increased but the natural unemployment rate has decreased.
 - d) The real wage has decreased and we do not know the final effect over the natural unemployment rate.
2. In the figure that describes the equilibrium in the labor market, $f(u, z)$ has a negative slope because:
 - a) The higher the unemployment benefit, the higher the wage rate claimed by workers.
 - b) The higher the unemployment benefit, the lower the wage rate claimed by workers.
 - c) The higher the unemployment rate, the higher the wage rate claimed by workers.
 - d) The higher the unemployment rate, the lower the wage rate claimed by workers.
3. Consider the following picture, where it represents the equilibrium in the labor market. Such equilibrium is located at point 0, and it determines the natural unemployment rate u_n :



- a) If there is decrease in the layoff costs, the new equilibrium will be located at point A.
 - b) If there is a decrease in the number of producers in the good market, the new equilibrium will be located at point B.
 - c) If there is an increase in the period where workers collect unemployment benefits, the new equilibrium will be located at point C.
 - c) If a country reduces its trade barriers over imported goods, the new equilibrium will be located at point D.
4. Assume that the production function is given by $Y = AN$, where A is labor productivity. Point out the wrong answer:
- a) Changes in labor productivity, will affect both the natural rate of unemployment and the real wage.
 - b) Any change that affect μ , will also affect the natural rate of unemployment and the real wage.
 - c) Changes in the expected price level, P^e , will affect the nominal wage but not the real wage.

- d) Any reform affecting z , will also affect the natural rate of unemployment and the real wage.
5. The natural rate of unemployment is that where it is met:
- a) $W/P = f(u, z) = (1 + \mu)$
 - b) $W/P = f(u, z) = 1/(1 + \mu)$
 - c) $W/P = f(u, z) = (1 - \mu)$
 - d) $W/P = f(u, z) = 1/\mu$

Topic 2: The Aggregate Supply - Aggregate Demand Model (AS-AD Model)

1. In the AS-AD Model, and starting from an initial situation where output is located at its natural level, there is a decrease in government expenditure. Then, in the new final equilibrium (medium run):
 - a) Unemployment is at its natural level, and output is less than its natural level.
 - b) Unemployment is at its natural level, and investment is lower than it was in the initial equilibrium.
 - c) Unemployment is at its natural level, and investment is higher than it was in the initial equilibrium.
 - d) Unemployment is at its natural level, and consumption is higher than it was in the initial equilibrium.
2. Consider the AS-AD Model, and assume that in the short-run equilibrium, the output level is less than its natural level. Then, and during the convergence (transition) to the final equilibrium:
 - a) It will decrease nominal wages, prices, and the real supply of money.
 - b) It will increase both the real supply of money and investment.
 - c) It will decrease both nominal and real wages.
 - d) The expected price level remains constant.

3. In the AS-AD Model, and starting from an initial situation where output is located at its natural level, there is a decrease in the price of oil. Then, in the new final equilibrium (medium run):
 - a) Output in the medium run equilibrium is higher than initial output.
 - b) Output in the medium run equilibrium is lower than initial output.
 - c) Output in the medium run equilibrium is equal than initial output.
 - d) We do not know the final effect over output.
4. Consider the AS-AD Model, and assume that a negative shock over the aggregate supply has happened. Consequently, prices have increased. The Government, in order to restore the initial price level, should:
 - a) Increase government expenditure.
 - b) Increase the nominal quantity of money.
 - c) Reduce taxes.
 - d) Reduce the nominal quantity of money.
5. In the AS-AD Model, and starting from an initial situation where output is located at its natural level, a reduction of Taxes, T , will imply in the short-run:
 - a) An increase in the unemployment rate.
 - b) An increase in the real supply of money.
 - c) An increase in the nominal wage.
 - d) An increase in the labor force.

Topic 3: The Phillips Curve

1. The correct statement regarding the Phillips Curve is:
 - a) It was discovered in the 70's.
 - b) It describes the relationship between the unemployment rate, the natural unemployment rate, and the variation in the inflation rate between two consecutive periods.
 - c) It was discovered in the 80's.
 - d) All previous answers are incorrect.
2. Assume that the European unemployment rate is 8.5% at any period t . If we observe that in that same period the inflation rate is bigger than the inflation rate at period $t - 1$, then we know that the natural unemployment rate is:
 - a) Bigger than 8.5%.
 - b) Equal to 8.5%.
 - c) Smaller than 8.5%.
 - d) We can not infer the value of the natural unemployment rate.
3. Assume that $(\mu + z) = 6\%$ and $\alpha = 1$, at any period t . Then, if the unemployment rate that same period is 4 percent, then the variation in the inflation rate between periods t and $t - 1$ is:
 - a) 2 %.
 - b) -2 %.
 - c) 3 %.
 - d) -1 %.

Topic 4: Inflation, activity, and growth of nominal money.

1. The Okun's law is given by:
 - a) $u_t - u_{t-1} = -\beta(g_{yt} - g_{\bar{y}})$
 - b) $u_t - u_{t-1} = -\beta(g_{\bar{y}} - g_{yt})$
 - c) $u_{t-1} - u_t = -\beta(g_{yt} - g_{\bar{y}})$
 - d) $u_t - u_{t-1} = \beta(g_{yt} - g_{\bar{y}})$
2. The Lucas critique suggest that a monetary policy, aimed to reduce the inflation rate, which has been previously announced and is credible:
 - a) It will not affect the unemployment rate
 - b) It will not affect the output growth rate
 - c) It implies a null sacrifice rate
 - d) All previous answers are correct.
3. Assume that $\alpha = \beta = 1$, que $u_{t-1} = u_n = 0.05(= 5\%)$, que $g_{\bar{y}} = 0.03(= 3\%)$, y que $\pi_{t-1} = 0.05(= 5\%)$. If we observe that $g_{yt} = 0.04(= 4\%)$, then the growth rate of the nominal quantity of money is:
 - a) 2%
 - b) 4%
 - c) 10%
 - d) It can not be computed with the above information.
4. Assume $\alpha = \beta = 1$, que $u_{t-1} = u_n = 0.05(= 5\%)$, que $g_{\bar{y}} = 0.03(= 3\%)$, y que $\pi_{t-1} = 0.05(= 5\%)$. If we observe that $g_{yt} = 0.02(= 2\%)$, then the growth rate of the nominal quantity of money is:
 - a) 2%
 - b) 6%
 - c) 10%
 - d) It can not be computed with the above information.