

Exam of Macroeconomics

28th June 2021

Duration 2:15

I (30%)

Please comment on the **veracity of the following statements**:

- a) Macroeconomic models that do not include money are not useful.
- b) Countries with small savings cannot strongly invest and in a continuous way.
- c) In the long run, inflation is always and everywhere a monetary phenomenon.
- d) The absence of capital flows determines a balanced current account.
- e) The central bank fully determines the nominal money stock in the economy.
- f) Preferences regarding leisure do not affect the labour supply curve.

II (40%)

Macroeconomic policies should be adapted to the circumstances and take the results of models into consideration:

- a) Is there a good motivation for the adoption of contractionary macroeconomic policies in an economy? Please explain.
- b) In the **simple Keynesian model** what is the impact of an increase in the desired level of inventories by firms? Please explain.
- c) In the **IS/LM model** what is the impact of a stronger preference for liquidity (i.e., holding more money for each combination of income and interest rate) by households? Please explain.
- d) What are the shocks that lead to the crowding out of investment in the **AS/AD model**?

III (30%)

Banks are very important in every economy but risks posed by their activity cannot be dismissed.

- a) What is the role of banks in the economy and why they must be supervised?
- b) What is the role of the minimum mandatory reserve rate (as a share of deposits) in the process of money creation?
- c) How does the central bank operate in order to increase the nominal money supply in the economy?
- d) What are the risks inherent to a massive creation of basic liquidity (money base) by the central bank?