Macroeconomics I

1. For a small economy under flexible exchange rates that is initially in a long-run equilibrium, a higher rate of inflation in the short run will be followed by:
   The central bank responding with (A)________ which will result in a (B)_______________.

a. (A) an increase in the exchange rate; (B) decline in net exports
b. (A) a decrease in the exchange rate; (B) an increase in net exports
c. (A) contractionary monetary policy; (B) real exchange rate appreciation
d. (A) expansionary monetary policy; (B) real exchange rate depreciation

Answer: c

2. Which of the following items is not used in estimating GDPfc or Yfc

a. Wages
b. Profits
c. Investment expenditure of government
d. Operating surplus of government enterprises

Answer: c

3. Which of the following factors does Tobin's *q* ratio ***not*** reflect:

a. marginal rate of intertemporal substitution.
b. the "animal spirits" of entrepreneurs.
c. the link between anticipated future productivity increases and current share prices.
d. the interest rate.

Answer: a

4. A permanent negative shock in income results in

a. increase in current consumption
b. decrease in current consumption
c. increase in future consumption
d. no change in current consumption

Answer: b

5. A reduction in savings at each level of disposable income

   a. shifts the IS curve down to the left.
   b. shifts the IS curve up to the right.
   c. shifts the LM curve down to the right.
   d. shifts the LM curve up to the left.

Answer: b