

Prof. Dr. Dieter Gerdesmeier

Euro Area Economics – Exercises

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DIETER GERDESMEIER

EURO AREA ECONOMICS – EXERCISES

Euro Area Economics – Exercises

2nd edition

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1 INTRODUCTION

This booklet is meant to accompany the basic textbook entitled “Euro Area Economics”. The reason for preparing such a booklet lies in the fact that I have been asked many times by my students to provide them with appropriate exercises in order to allow them to test their knowledge. In line with this, here is another edition of such an exercise booklet. It goes without saying that the concrete outline follows the one of the underlying textbook very closely.

2 UNDERSTANDING ECONOMICS

- 2.1) Opportunity costs are...?
- a key concept in macroeconomics
 - always measured in monetary units
 - only of relevance for econometrics
 - always expressed in terms of forgone consumption of another good
- 2.2) Which of the following topics can be seen as forming part of macroeconomic analysis...?
- the analysis of household's behaviour
 - the analysis of business cycle fluctuations
 - the analysis of the monopolist's price-setting behaviour
 - the analysis of unemployment
- 2.3) By its very nature, an ex-ante analysis is...?
- retrospective
 - forward-looking
 - prospective
 - backward-looking
- 2.4) Classical economics is rooted in the work of...?
- David Ricardo
 - Milton Friedman
 - John Maynard Keynes
 - Adam Smith
- 2.5) The "New Keynesian School of Economics" is closely linked to the work of...?
- Milton Friedman
 - Robert Lucas
 - Robert Gordon
 - Jordi Gali
- 2.6) Some key macroeconomic variables are...?
- the rate of inflation
 - the rate of unemployment
 - the trade balance
 - the exchange rate

3 A LOOK INTO THE TOOLBOX

- 3.1) Which of the following equations are part of the mathematical analysis...?
- behavioural equations
 - primary equations
 - secondary equations
 - identities
- 3.2) According to the “law of supply”, the supply curve is...?
- horizontal
 - vertical
 - upward sloping
 - downward sloping
- 3.3) Assuming an unchanged demand curve, an increase in the supply for a good leads to...?
- an increase in the price
 - a decrease in the price
 - an increase in the quantity
 - a decrease in the quantity
- 3.4) According to the law of demand, the price and the demand for a good are related as follows...?
- positively
 - negatively
 - not at all
 - all of the above
- 3.5) Assuming an unchanged supply curve, an increase in the demand for a good leads to...?
- an increase in the price
 - a decrease in the price
 - an increase in the quantity
 - a decrease in the quantity
- 3.6) A change in the price causes...?
- a rightward shift of the demand curve
 - a leftward shift of the demand curve
 - a change in the slope of the demand curve
 - a shift along the demand curve

- 3.7) Which of the following reasons would cause the demand for houses to shift to the left...?
- an increase in buyer's income
 - an increase in the cost of production for houses
 - an increase in the price for houses
 - an increase in the interest to be paid on loans
- 3.8) Examples of complementary goods are...?
- tennis shoes and socks
 - coffee and tea
 - pencils and erasers
 - butter and margarine
- 3.9) If a market is in equilibrium, this means that...?
- prices are too high
 - demand exceeds supply
 - supply exceeds demand
 - supply equals demand
- 3.10) A high elasticity of demand is reflected in...?
- a vertical demand curve
 - a horizontal demand curve
 - a steep demand curve
 - a flat demand curve

4 NATIONAL INCOME ACCOUNTING

- 4.1) The framework of national accounting embodies...?
- the expenditure approach
 - the income approach
 - the stock-and-flow approach
 - the value added approach
- 4.2) Nominal GDP is also called...?
- GDP in constant prices
 - GDP in current prices
 - Euro GDP
 - GDP adjusted for inflation
- 4.3) Under normal circumstances...?
- nominal GDP is equal to real GDP
 - nominal GDP is higher than real GDP
 - nominal GDP is lower than real GDP
 - nominal GDP does not have anything to do with real GDP
- 4.4) In a closed economy with government (but without taxes), aggregate demand equals...?
- consumption minus investment
 - consumption plus taxes plus savings
 - consumption plus investment plus government expenditure
 - consumption plus investment plus net exports
- 4.5) Say's Law states that
- demand creates supply
 - supply creates demand
 - supply and demand are independent
 - supply and demand are interdependent
- 4.6) The expression "twin deficits" refers to...?
- the budget deficit and the social security deficit
 - the budget deficit and the household deficit
 - the trade deficit and the capital deficit
 - the budget deficit and the trade deficit

5 THE MARKET FOR GOODS

- 5.1) The marginal propensity to consume...?
- is equal to the absolute term of the consumption function
 - is equal to the residual term of the consumption function
 - is equal to the slope of the consumption function
 - is equal to the slope of the investment function
- 5.2) Suppose, the consumption function is equal to $C=200+0.8\cdot Y$. Consequently, the marginal propensity to consume is...?
- 0.5
 - 0.4
 - 0.8
 - 1.0
- 5.3) In a closed economy without government, the marginal propensity to save is 0.25, so the marginal propensity to consume is...?
- 0.50
 - 0.25
 - 0.75
 - 1.25
- 5.4) The “permanent income hypothesis” has been advocated by...?
- James Duesenberry
 - Milton Friedman
 - John Maynard Keynes
 - Alberto Ando
 - Franco Modigliani
- 5.5) The investment multiplier...?
- always takes a positive value
 - equals the value of one
 - is always larger than one
 - is usually negative
- 5.6) The “Haavelmo theorem” holds that...?
- a balanced budget has zero effect
 - a balanced budget has a negative effect
 - a balanced budget has a positive effect
 - a balanced budget increases prices

- 5.7) Along the IS curve...?
- the market for investment is in equilibrium
 - the market for goods is in equilibrium
 - investment equals savings
 - consumption equals taxes
- 5.8) The IS curve steepens if...?
- the slope of the investment function increases
 - the slope of the savings function decreases
 - the slope of the savings function increases
 - the slope of the investment function declines
- 5.9) In case, in an open economy exports exceed imports and government expenditures exceed taxes, then...?
- savings must exceed investment
 - savings must equal investment
 - savings must undershot investment
 - none of the above
- 5.10) If supply exceeds demand in the goods market of a closed economy, it must follow that...?
- savings exceed investment
 - income exceeds equilibrium income
 - there is a lack of demand
 - savings equal investment

6 THE MONEY MARKET

- 6.1) According to the literature, money performs the function(s) of...?
- a unit of account
 - a medium of exchange
 - a store of value
 - an electronic source
- 6.2) The ECB's Governing Council...?
- currently comprises 25 members
 - is chaired by the President of the ECB
 - includes the ECB's Executive Board members
 - votes according to a pre-defined rotation scheme
- 6.3) Following J.M. Keynes, money demand consists of...?
- a transactions demand for money
 - a precautionary demand for money
 - a speculative demand for money
 - an asset demand for money



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- 6.4) The LM curve...?
- always has a negative slope
 - normally has a positive slope
 - can have a horizontal segment
 - can have a vertical segment
- 6.5) Along the LM curve...?
- the money market is in equilibrium
 - the market for goods is in equilibrium
 - transactions demand equals precautionary demand
 - speculative demand equals income
- 6.6) The LM curve steepens if...?
- the multiplier increases
 - the slope of the savings function increases
 - the interest rate elasticity of investment increases
 - the cash-holding coefficient increases
- 6.7) In the framework of the LM curve, disequilibria in the money market are most likely resolved by...?
- changes in money supply
 - changes in consumption
 - changes in investment
 - changes in interest rates

7 THE IS-LM MODEL

- 7.1) The IS-LM model...?
- shows an equilibrium in the goods market
 - shows an equilibrium in the money market
 - shows an equilibrium in the labour market
 - shows a simultaneous equilibrium in the money and the goods market
- 7.2) A shift of the IS curve to the right in the classical segment...?
- leads to an increase in prices
 - leads to an increase in income
 - leads to an increase in the interest rate
 - leads to an increase in real wages
- 7.3) In the framework of the IS-LM model, an expansionary monetary policy coupled with an interest-rate inelastic investment will lead to...?
- an increase in income
 - a decrease in income
 - an increase in the interest rate
 - a decrease in the interest rate
 - an increase in wages
 - a decrease in wages
 - an increase in investment
 - a decrease in investment
- 7.4) The expression “crowding out” implies that...?
- government expenditure “crowds out” private investment
 - private investment “crowds out” government projects
 - the full multiplier effect works
 - the full multiplier does not work
 - the interest-rate sensitivity of investment implies a dampening effect
 - the income elasticity of consumption implies a dampening effect
- 7.5) Using a “policy mix” can in principle help to...?
- avoid any kind of “crowding out” effect
 - offset the interest rate increase that usually follows an expansionary fiscal policy
 - achieve more than what can be done by individual policy measures in isolation
 - set the full multiplier effect into force

8 THE LABOUR MARKET

- 8.1) Following the classical view,...?
- labour supply depends positively on real wages
 - labour demand depends negatively on real wages
 - disequilibria cannot persist in the long run
 - the invisible hand works
- 8.2) If real wages are set at a too high level, then...?
- an excess supply of labour materialises
 - an excess demand of labour materialises
 - involuntary unemployment must exist
 - voluntary unemployment must exist
- 8.3) According to J.M. Keynes,...?
- labour supply depends on real wages
 - real wages are subject to downward rigidities
 - labour demand depends on the level of aggregate demand
 - adjustments in real wages will automatically clear the market

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- 8.4) In the Keynesian labour market...?
- wages are only a cost argument
 - wages are only an income argument
 - wages are both, a cost and an income argument
 - none of the above
- 8.5) Taken together, unemployment can be due to...?
- wages being too high
 - wages being too low
 - income being too high
 - interest rates being too low

9 AGGREGATE SUPPLY AND DEMAND

- 9.1) The aggregate demand curve...?
- has a negative slope
 - mirrors the impact of the IS and the LM curve
 - mirrors the impact of the labour market
 - makes use of the production function
- 9.2) In the long run,...?
- the aggregate demand curve is vertical
 - the aggregate supply curve is vertical
 - the aggregate demand curve has a negative slope
 - the aggregate supply curve has a zero slope
- 9.3) The AD curve shifts to the right if...?
- money supply increases
 - consumption decreases
 - investment increases
 - the budget deficit declines
 - the trade balance increases
 - real wages increase
- 9.4) Among the factors influencing the position of the AS curve are...?
- oil prices
 - real wages
 - the labour input
 - the capital input
 - the price level
 - real income
 - technology

10 A CLOSER LOOK AT CONSUMPTION

10.1) The results by Simon Kuznets showed...?

- the existence of secular stagnation
- the existence of a fundamental psychological law
- a short-run linear consumption function going through the origin
- a long-run linear consumption function going through the origin

10.2) Following the argumentation of M. Friedman,...?

- a so-called “transitory income” exists
- a so-called “permanent income” exists
- a change in permanent income will have a substantial effect on the consumption level
- a change in permanent income will only be marginally felt in the same period



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- 10.3) According to the results of F. Modigliani...?
- people try to “smooth out” consumption
 - people face a “lifetime budget constraint”
 - people aim at maintaining a stable level of consumption
 - people face a period of dissaving after retirement until death
- 10.4) The modern consumption theories conclude that...?
- a temporary tax increase has no effect on consumption
 - a permanent tax increase has a substantial effect on consumption
 - a temporary tax increase has a negligible effect on consumption
 - temporary changes in income result in smaller multiplier effects

11 A CLOSER LOOK AT INVESTMENT

- 11.1) Gross investment represents...?
- the total spending of a firm on newly produced physical capital and on inventories
 - net investment plus replacement investment
 - net investment minus depreciation
 - net investment plus depreciation
- 11.2) The accelerator hypothesis...?
- compares the marginal product of capital to the (real) user cost of capital
 - regards investment as a linear proportion of changes in output
 - assumes a given production technology
 - explicitly looks at profitability and cost of capital
- 11.3) The neoclassical theory of investment...?
- represents a coherent framework by explaining how much capital stock a firm is willing to hold at a particular point in time
 - takes a close look at the marginal efficiency of capital
 - takes a close look at the (real) user cost of capital
 - explicitly finds a role for taxes
- 11.4) Tobin's Q theory embodies...?
- the (real) user cost of capital
 - the marginal efficiency of capital
 - the market value of the existing capital stock
 - the replacement cost of firm's capital

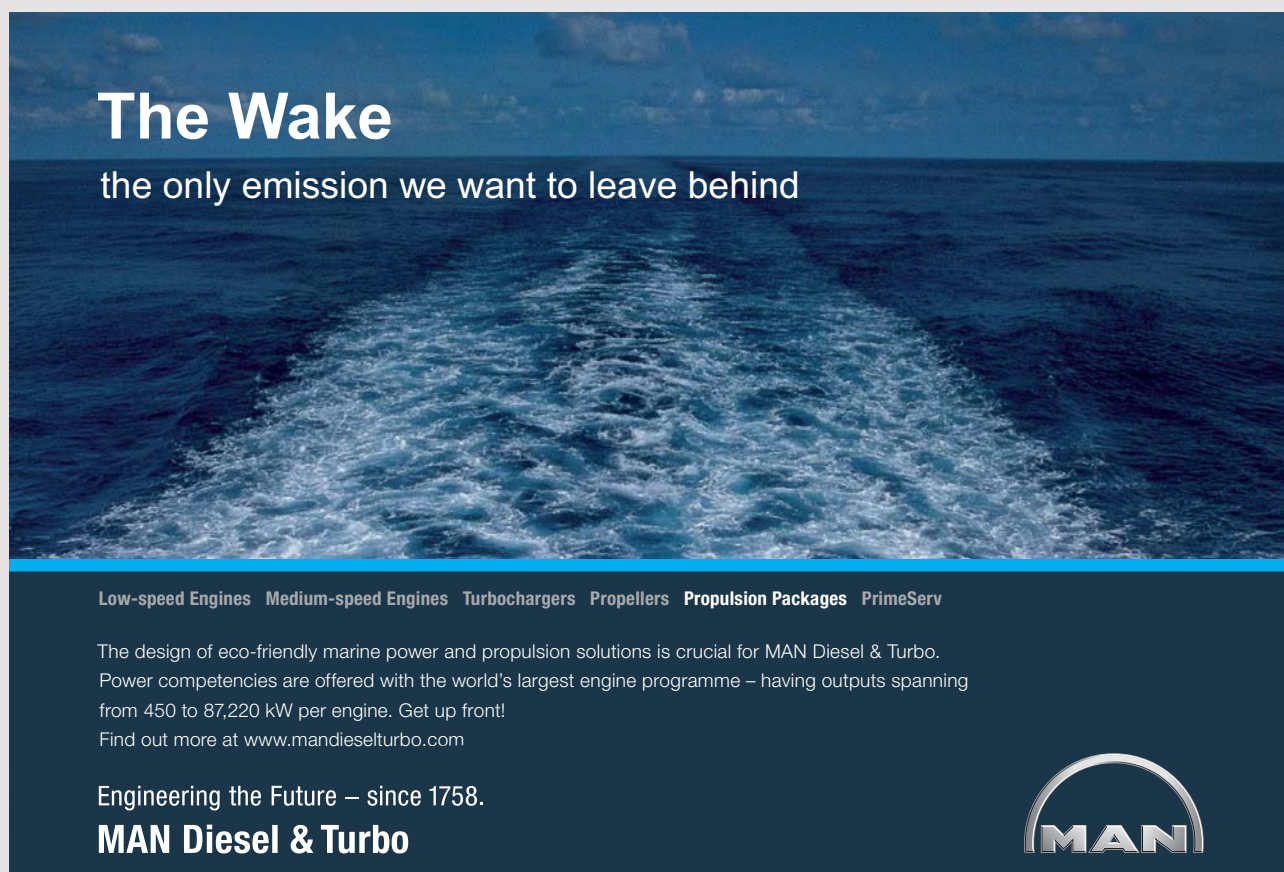
12 A CLOSER LOOK AT FISCAL POLICY

12.1) Which of the following variables qualifies as an automatic stabilizer...?

- imports
- government expenditure
- lump-sum taxes
- income taxes

12.2) If the economy operates in a deficit situation at potential level of GDP, this is called...?

- a cyclical deficit
- an equilibrium deficit
- a potential deficit
- a structural deficit



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- 12.3) The Laffer curve describes the relationship between...?
- tax rates and real GDP
 - tax rates and the budget deficit
 - tax rates and government revenue
 - tax rates and the debt service burden
- 12.4) The key messages of the Laffer curve are that...?
- a relationship between the rate of taxation and the resulting level of government revenue exists
 - if the tax rate increases, government revenue always increases
 - an optimal tax rate exists
 - the optimal tax rate maximises government revenue
- 12.5) If Ricardian Equivalence holds, then higher budget deficits...?
- lead to lower interest rates
 - lead to a crowding out of private investment
 - lead to higher savings by households
 - have no net effect on interest rates

13 A CLOSER LOOK AT MONEY DEMAND

- 13.1) The variables explaining money demand in the Baumol Tobin model are...?
- risk aversion
 - the brokers fee
 - real income
 - the interest rate
- 13.2) The portfolio selection approach distinguishes...?
- risk-loving individuals
 - risk-neutral individuals
 - risk-addicted individuals
 - risk-averse individuals
- 13.3) In the portfolio selection approach, a risk-neutral individual...?
- holds only money
 - holds only bonds
 - holds a mixed portfolio
 - holds no financial assets at all
- 13.4) The portfolio balance approach models money demand as a function of...?
- the domestic interest rate
 - the foreign interest rate
 - the change in the exchange rate
 - the corresponding risk measure

14 THE EUROPEAN UNION AND THE EURO AREA

14.1) The name “Europe” derives from...?

- one of the six continents
- a Greek princess
- a Phoenician princess
- a Greek island

14.2) How many countries are currently members of the euro area?

- 15
- 19
- 28
- 50

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- 14.3) Which of the following countries form the “Baltic countries”
- Latvia
 - Estonia
 - Russia
 - Norway
 - Lithuania
- 14.4) How many persons are currently members of the Governing Council?
- 15
 - 19
 - 25
 - 28
- 14.5) Which of the following persons are currently members of the ECB’s Executive Board?
- Gertrude Tumpel-Gugerell
 - Peter Praet
 - Jürgen Stark
 - Axel Weber
 - Sirkka Härmäläinen
- 14.6) Which of the following countries has a harp on one of its coins?
- Finland
 - Greece
 - Portugal
 - Ireland
- 14.7) Which of the following countries have introduced the euro as their currency?
- Germany
 - Denmark
 - Slovenia
 - Romania
 - Norway
 - Bulgaria
 - Hungary
 - Croatia
 - Canada
 - France
 - Luxembourg
 - Greece
 - Czech Republic

- 14.8) What is the name of the current President of the ECB?
- Jean-Claude Juncker
 - Jean-Claude Trichet
 - Willem Duisenberg
 - Mario Draghi
- 14.9) Which country has joined the euro area in January 2015?
- Estonia
 - Latvia
 - Lithuania
 - Croatia
- 14.10) The euro coins and banknotes have been introduced in...?
- 1999
 - 2001
 - 2002
 - 2006
- 14.11) Before entering the euro area, a country has to fulfil the...?
- independence criteria
 - convergence criteria
 - progress criteria
 - sustainability criteria

15 BUSINESS CYCLE FLUCTUATIONS

15.1) Among the business cycles mentioned in the literature are...?

- the Kitchin cycle
- the Juglar cycle
- the Kuznets cycle
- the Kondratieff cycle

15.2) Business cycle indicators are often categorised according to...?

- their direction
- their timing
- their availability
- their slope

15.3) According to empirical evidence, real M1...?

- is a lagging indicator for activity
- is a leading indicator for activity
- behaves in a procyclical way
- behaves in a countercyclical way



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- 15.4) The particular point of the business cycle, where real GDP reaches its lowest point is called...?
- expansion
 - peak
 - recession
 - trough
 - inflection point
- 15.5) When the literature speaks about “the” business cycle, it generally refers to...?
- the Kitchin cycle
 - the Juglar cycle
 - the Kuznets cycle
 - the Kondratieff cycle
- 15.6) The well-known “Kondratieff cycle” or “Kondratieff wave” is generally seen as having a duration of...?
- 3–5 years
 - 7–11 years
 - 15–25 years
 - 45–60 years
- 15.7) Which of the following business cycle indicators behave in a countercyclical way...?
- broad money
 - narrow money
 - loans to the private sector
 - capacity utilisation
 - unemployment
 - short-term interest rates
 - inflation
 - all of the above
 - none of the above
- 15.8) A positive output gap is equivalent to saying that...?
- the economy operates at full capacity
 - the economy exceeds full capacity
 - the economy operates below full capacity
 - inflation is below target

16 UNEMPLOYMENT

- 16.1) The types of unemployment mentioned in the literature are...?
- cyclical unemployment
 - frictional unemployment
 - structural unemployment
 - shadow unemployment
- 16.2) Okun's Law quantifies the relationship between...?
- the price level and money
 - the price level and unemployment
 - consumption and GDP
 - unemployment and forgone GDP
- 16.3) The particular type of unemployment that can be recorded if workers are in between jobs is called...?
- frictional unemployment
 - cyclical unemployment
 - structural unemployment
 - involuntary unemployment
- 16.4) Suppose, a country has 1 million (registered) unemployed people, 9 million (registered) employed people and 1 million (registered) unemployed below 16. As a consequence, the country's official unemployment rate equals...?
- 5%
 - 10%
 - 15%
 - 18%

17 PRICES AND INFLATION

- 17.1) Inflation is generally defined as...?
- a continued rise in the price index
 - a continued decline in the price index
 - a negative but increasing decline in the price index
 - a positive but decreasing increase in the price index
- 17.2) The main price indices in the economy are...?
- the producer price index
 - the interest price index
 - the consumer price index
 - the GDP deflator
- 17.3) The expression “core inflation” refers to...?
- the part of inflation caused by fundamental factors
 - the part of inflation caused by energy prices
 - the part of inflation caused by food prices
 - the part of inflation caused by non-fundamental factors

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- 17.4) The observation that headline inflation exceeds core inflation could (inter alia) be triggered by...?
- an increase in oil prices
 - an increase in food prices
 - an increase in the value-added tax
 - an increase in real GDP growth
- 17.5) Suppose, a representative basket consists of two goods, each of which are consumed in the quantity of 10 units. Good A has a price of 10 in the first period and 12 in the second period. Good B has a price of 10 in the first period and 15 in the second period. It then follows that...?
- the total costs of the basket in the first period is equal to 100
 - the total costs of the basket in the second period is equal 270
 - the inflation rate is equal to 35%
 - the inflation rate is equal to 70%
 - all of the above
 - none of the above
- 17.6) Which of the following problems qualify as a measurement problem in price statistics...?
- the underlying basket needs to be modified
 - changes in quality have to be incorporated
 - new products have to be integrated
 - real GDP becomes available only with a one-quarter lag
 - all of the above
 - none of the above
- 17.7) The expression “hyperinflation” generally refers to...?
- an increase in annual inflation by more than 2 percent
 - an increase in annual inflation by more than 10%
 - an increase in annual inflation between 50 and 100%
 - an increase in monthly inflation by more than 50%
 - all of the above
 - none of the above

18 EXCHANGE RATES

- 18.1) Among the approaches explaining exchange rate developments over longer horizons are...?
- the covered interest rate parity
 - the absolute purchasing power parity
 - the uncovered interest rate parity
 - the purchasing power parity for tradable goods
- 18.2) The relationship linking the interest rate differential to the forward exchange rate and the spot exchange rate is called...?
- the purchasing power parity
 - the covered interest rate parity
 - the uncovered interest rate parity
 - the Balassa-Samuelson effect
- 18.3) When the literature speaks about “dollarisation”, this means that...?
- the exchange rate vis-à-vis the dollar is fixed
 - exchange rate interventions keep the dollar stable
 - a foreign currency is used in parallel to the home currency
 - a foreign currency is used on its own
- 18.4) Humorous but nevertheless valuable illustrations of the purchasing power parity involve...?
- the house price index
 - the haircut index
 - the Big Mac Index
 - the Tall-Latte-Index
 - the iPod index
 - all of the above
 - none of the above

19 MONETARY THEORY

- 19.1) In its traditional version, the quantity theory of money states that...?
- at least in the short run, velocity is determined by payment habits
 - the growth rate of real income can be regarded as fixed
 - the change in money will be reflected in a change in prices
 - the change in money will be reflected in a rise in real income
 - all of the above
 - none of the above
- 19.2) The theory of the Philips Curve states that...?
- in the short-run, a trade-off between unemployment and inflation exists
 - in the short run, a “menu of choice” exists
 - in the long run, the Philips Curve is vertical
 - in the long run, no trade-off exists
 - in the long run, money illusion seems to exist
 - all of the above

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- 19.3) The P-Star Model includes...?
- an output gap
 - a budgetary gap
 - a velocity gap
 - a price gap
- 19.4) The Scandinavian Model of Inflation includes...?
- tradable and non-tradable goods
 - differences in the increases in nominal wages and productivity
 - imported inflation
 - structural inflation
 - a “spillover effect”
 - all of the above
- 19.5) Among the more backward-looking types of expectation formation are...?
- adaptive expectations
 - rational expectations
 - behavioural expectations
 - static expectations

20 MONETARY POLICY

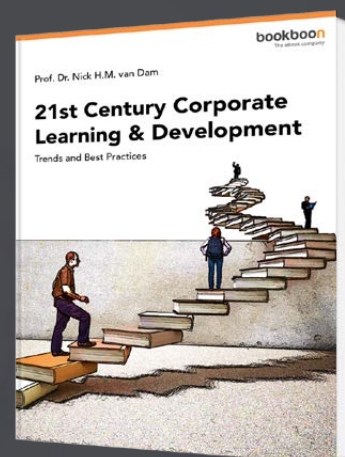
- 20.1) According to the literature, the functions of money include...?
- the function as a medium of exchange
 - the function as store of value
 - the function as a unit of account
 - the function as an instrument of barter
- 20.2) Among the historical forms of money are...?
- commodity money
 - metallic money
 - paper money
 - hybrid money
 - electronic money
- 20.3) Conventional views of the transmission mechanism include...?
- an asset price channel
 - an interest rate channel
 - an exchange rate channel
 - a credit channel
- 20.4) The economic literature often distinguishes...?
- a recognition-lag
 - a decision-lag
 - a briefing-lag
 - an effectiveness-lag
- 20.5) An intermediate target needs...?
- to have a close relationship with the ultimate objective
 - to give an impression about strength and direction of monetary effects
 - to be controllable by monetary policy
 - to be easily observable at an early stage of the transmission process
- 20.6) The term “adverse selection” describes...?
- the temptation to take more risk since others will bear the costs
 - the attitude of being “too big to fail”
 - a bad outcome, which is due to asymmetric information
 - the tendency of buying “cherries” rather than “lemons”
 - all of the above
 - none of the above

- 20.7) Monetarist economists would tend to claim that...?
- the private sector is inherently stable
 - money matters
 - following a rule-like behaviour is preferable
 - an activist monetary policy can be ill-timed
 - the self-correcting forces in an economy are weak
 - all of the above
 - none of the above
- 20.8) Traditional monetary policy strategies include...?
- exchange rate targeting
 - output gap targeting
 - monetary targeting
 - inflation targeting
 - all of the above
 - none of the above

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20.9) The broadest monetary aggregate in the euro area is called...?

- central bank money stock
- M1
- M2
- M3
- all of the above
- none of the above

20.10) The so-called "Goodhart's Law" states that...?

- the IS-Curve is unstable when interest rates are targeted
- a stable money demand function becomes unstable when targeted
- the AD-Curve becomes unstable when oil price shocks materialise
- an unstable money demand function become stable when targeted
- all of the above
- none of the above

21 CONVENTIONAL AND UNCONVENTIONAL MONETARY POLICY

- 21.1) In the context of a stylised central bank balance sheet, the central bank money stock increases if (*ceteris paribus*)...?
- claims vis-à-vis the foreign sector increase
 - claims vis-à-vis the government increase
 - claims vis-à-vis the domestic banking sector increase
 - currency in circulation increases
- 21.2) The money multiplier includes the following variables...?
- the currency deposit ratio
 - the reserve ratio
 - the output gap
 - the price gap
 - the velocity gap
- 21.3) The original Taylor rule links the short-term interest rate to...?
- the monetary base
 - the output gap
 - the inflation gap
 - the real equilibrium interest rate
- 21.4) In the framework of the standard Taylor rule, the so-called “Taylor principle” states that...?
- the output gap coefficient should be positive
 - the inflation gap coefficient should be positive
 - the inflation gap coefficient should be larger than one
 - the interest rate smoothing term should be positive
- 21.5) The ECB’s extended APP is supposed to work via...?
- exchange rate effects
 - signalling effects
 - inflation expectations effects
 - portfolio effects

22 OPEN ECONOMY ISSUES

- 22.1) The balance of payments...?
- represents a statistical framework
 - measures the currency and commodity flows
 - relies on the key concept of residence
 - contains a current account and a capital account
- 22.2) The so-called “capital account” records...?
- the amount of capital and labour input in an economy
 - the total amount of financial investment in an economy
 - all capital transactions of an economy with the rest of the world
 - the amount of capital available for stock market investment
- 22.3) The Bank for International Settlements (BIS)...
- is an intergovernmental organisation
 - makes long-term loans to countries
 - takes care of balance of payment problems
 - constitutes a centre for international central bank cooperation

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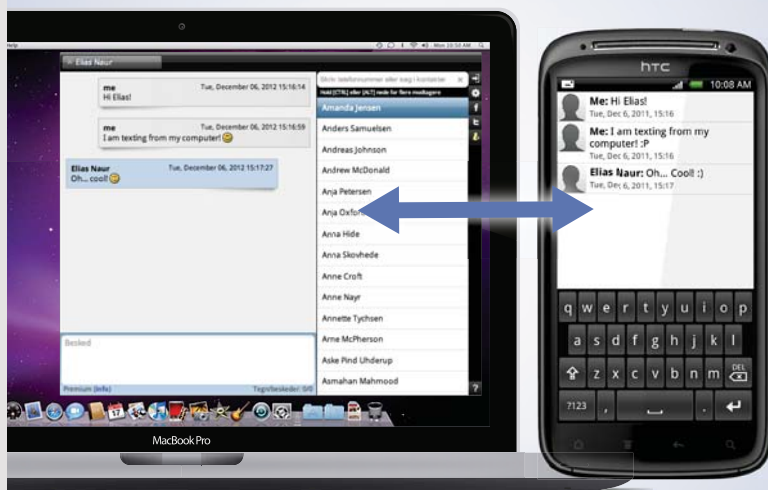
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- 22.4) Approaches to explain the behaviour of the balance of payments include the...
- the elasticity approach
 - the multiplier approach
 - the absorption approach
 - the liquidity trap approach
 - the monetary approach
- 22.5) In the so-called “gold exchange standard”,...
- all currencies are defined in terms of gold
 - all currencies are pegged to the US dollar
 - all currencies are allowed to “float”
 - the US dollar is declared convertible into gold
 - all currencies take part in the ERM
- 22.6) In the balance of payments framework, an increase in domestic GDP leads (in first instance) to...
- capital inflows
 - higher exports
 - higher imports
 - a positive interest rate differential

23 GROWTH THEORY

- 23.1) From a general perspective, the expression “growth of an economy” refers to the explanation of...?
- the high-frequency component of real GDP
 - the business cycle of real GDP
 - the time trend of real GDP
 - the business cycle and the trend of real GDP
- 23.2) It can be shown that growth in real GDP per person includes the following factors...?
- growth in the autonomous factor
 - growth of capital per person
 - growth of the tax rate
 - growth in the money supply
- 23.3) The change in the growth rate of A is called the...?
- cash-holding coefficient
 - Solow residual
 - measure of our ignorance
 - growth in the autonomous factor
 - total factor productivity
 - growth velocity
 - autonomous consumption
- 23.4) The growth in capital per person can be linked to...?
- the (real) output to capital ratio
 - the depreciation rate
 - the growth rate of the population
 - the savings rate

24 SOLUTIONS

Chapter 2:	2.1a, d; 2.2b, d; 2.3 b, c; 2.4a, d; 2.5c, d; 2.6a, b, c, d.
Chapter 3:	3.1a, d; 3.2c; 3.3b, c; 3.4b; 3.5a, c; 3.6d, 3.7d, 3.8a,c; 3.9d; 3.10d.
Chapter 4:	4.1a, b, d; 4.2b, c; 4.3b; 4.4c, 4.5b; 4.6d.
Chapter 5:	5.1c; 5.2c; 5.3c; 5.4b; 5.5a,c; 5.6c; 5.7b, c; 5.8c, d; 5.9a; 5.10a, b, c.
Chapter 6:	6.1a, b, c; 6.2a, b, c, d; 6.3a, b, c, d; 6.4b, c, d; 6.5a; 6.6d; 6.7d.
Chapter 7:	7.1d; 7.2c; 7.3d; 7.4a, d, e; 7.5a, b, c, d.
Chapter 8:	8.1a, b, c, d; 8.2a, c; 8.3a, b, c; 8.4c; 8.5a, b.
Chapter 9:	9.1a, b; 9.2b, c; 9.3a, c, e; 9.4a, b, c, d, g.
Chapter 10:	10.1d; 10.2a, b, c; 10.3a, b, c, d; 10.4b,c,d.
Chapter 11:	11.1a,b,d; 11.2b, c; 11.3a, b, c, d; 11.4c,d.
Chapter 12:	12.1d; 12.2d; 12.3c; 12.4a, c, d; 12.5c, d.
Chapter 13:	13.1b, c, d; 13.2a, b, d; 13.3b; 13.4a, b, c, d.
Chapter 14:	14.1c; 14.2b; 14.3a, b, e; 14.4c; 14.5b; 14.6d; 14.7a, c, j, k, l; 14.8d; 14.9c; 14.10c; 14.11b.
Chapter 15:	15.1a, b, c, d; 15.2a, b, c; 15.3b, c; 15.4d; 15.5b; 15.6d; 15.7e; 15.8b.
Chapter 16:	16.1a, b, c; 16.2d; 16.3a; 16.4b.
Chapter 17:	17.1a; 17.2a, c, d; 17.3a; 17.4a, b, c; 17.5b, c; 17.6a, b, c; 17.7d.
Chapter 18:	18.1b,d; 18.2b; 18.3c, d; 18.4c, d, e.
Chapter 19:	19.1a, b, c; 19.2a, b, c, d; 19.3a, c, d; 19.4a, b, c, d, e, f; 19.5a, d.
Chapter 20:	20.1a, b, c; 20.2a, b, c, e; 20.3a,b,c,d; 20.4a,b,d; 20.5a, c, d; 20.6c; 20.7a, b, c, d; 20.8a, c, d; 20.9d, 20.10b.
Chapter 21:	21.1a, b, c, d; 21.2a, b; 21.3b, c, d; 21.4c; 21a, b, c, d.
Chapter 22:	22.1a, b, c, d; 22.2c; 22.3a,d; 22.4a, c, e; 22.5b, d; 22.6c.
Chapter 23:	23.1c; 23.2a, b; 23.3b, c, d, e; 23.4a, b, c, d.