

## Final Exam Macroeconomics

3<sup>rd</sup> February 2020

Duration: 2:00

### I (20%)

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

- a) Total economic activity is measured by the sum of sales in all sectors.
- b) The current account balance is always zero by construction.
- c) Inflation corresponds to a sustained increase in the price of a representative set of goods in the economy.
- d) The announcement of a currency depreciation leads to a capital outflow.

### II (50%)

The IS-LM model is a construction that was initiated with the simple Keynesian model and allows for the identification of the impact of different policies.

- a) What are the differences between the IS-LM model and the simple Keynesian model?
- b) Why was the Keynesian model useful to fight the great depression in the US in the 1930s? *steady state faster without cost of unemployment*
- c) Why did the oil price shocks in 1973 and 1979 show the limitations of the Keynesian model?
- d) What is the impact of an oil price shocks in the IS-LM model? *Example of negative technology*
- e) Can the effects of an oil price shock be counteracted by fiscal or monetary policy? *Supply side policies?*

### III (30%)

- a) How is money defined? *Medium of exchange, store of value and unit*
- b) Explain how do banks create money and derive the expression of the money multiplier. *of account*
- c) Why the growth in money supply is intrinsically linked to the inflation rate?