NOVA SCHOOL OF LAW

Academic year 2019-2020

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# Final Exam Macroeconomics

30th June 2020

Duration: 2:15

**I (20%)**

Please assess the truthfulness of the following statements and justify:

a) There is just one approach for the computation of GDP.
b) Real appreciations increase exports and decrease imports, thus deteriorating the current account balance.
c) In a single country it is not possible to have more than one asset performing simultaneously the role of money.
d) In the Keynesian models, the higher the households' savings rate, the higher the impact of fiscal policy on GDP.

**II (30%)**

Macroeconomic models are useful tools to assess the impact of different shock that affect the economy. For each of the shocks listed below please assess the impact on the main macroeconomic aggregates using the AS/AD model.

a) Increase in the retirement age.
b) Higher preference for holding money (liquidity) by economic agents.
c) Improvement of the management practices in domestic firms.

## III (30%)

Economic cycles are defined as deviations of GDP from its potential levels.

a) Can fiscal and monetary policies both affect the potential output while reducing output gaps?
b) The existence of distortions in the labour market (e.g., contracts, asymmetry of information) enlarges the length of economic cycles? Why?
c) Do international linkages enlarge the length of economic cycles, especially when there is perfect capital mobility and fixed exchange rates? Why?

## IV (20%)

The European Central has been playing an important role in response to the current pandemic crisis both by providing money (liquidity) to economic agents and stabilizing the price of government bonds**.**

a) Explain how money is created in the economy and derive the money multiplier.
b) How does uncertainty from the part of banks and households affect the nominal money supply?
c) Can a context of sharp liquidity shortages trigger a financial crisis and a negative credit cycle?
d) How should public authorities and the central bank intervene in case of a financial crisis and banks' insolvency?