NOVA SCHOOL OF LAW

Academic year 2021-2022

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Exam of Macroeconomics

27th June 2022

Duration 2:15

I (30%)

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

a) Expenditure decisions are not affected by interest rates.

b) Investments fully based on imported machinery do not contribute to the GDP.

c) The absence of capital flows implies that exports must be equal to imports.

d) Banks are important to facilitate transactions but do not contribute to economic growth.

e) Prices tend to increase when observed output is above its potential level.

II (30%)

Consider the following shocks, discuss their **impact on the IS/LM model** and choose the **best policy** to put the economy back on the initial level of output (do not consider the possibility of using a policy-mix).

a) Increase in pessimism due to the invasion of Ukraine by Russia.

b) Panic in financial markets leading to massive sell out of bonds by individuals.

c) Decrease in net exports due to competitiveness losses.

↳ sell bonds – excess supply – Pb ↓ i

III (40%)n

In an open economy setting, macro policies have far-reaching impacts. Please answer the following questions and justify.

a) Is fiscal policy powerful to affect output in the Mundell-Fleming model?
b) Is monetary policy still available for countries that join a monetary union?
c) Do speculative attacks exist on a flexible exchange rate regime?
d) Could a contractionary monetary policy in the US help the euro area economy?