Topic 9. ECONOMIC POLICY

9.1 Demand policies: fiscal policy and monetary policy

BASIC CONCEPTS

Public Sector
Government Spending: purchase of goods and services, transferences and public debt interests
Tax revenue
Direct taxes and Indirect taxes
Automatic stabilizers
Fiscal policy
Expansionary fiscal policy and contractionary fiscal policy
Fiscal policy instruments
The budget deficit
Bonds
Market of money
Monetary policy
Expansionary monetary policy and contractionary monetary policy
Monetary policy instruments

MULTIPLE-CHOICE QUESTIONS

1. The government spending multiplier is as higher as:
   a. Higher is the government spending
   b. Higher is the MPC
   c. Lower is the MPC
   d. Lower is the tax revenue

2. Point out which of the following is not an instrument of fiscal policy:
   a. An increase in the interest rate
   b. A cut in unemployment compensation
   c. An increase in tobacco taxes
   d. A cut in the marginal rates of IRPF

3. The function of investment spending shifts to the left if:
   a. The interest rate rises
   b. The interest rate falls
   c. Business expectations improve
   d. Business expectations get worse

4. An increase in the interest rate…
   a. Shifts the aggregate demand curve to the left
   b. Shifts the aggregate demand curve to the right
   c. Has no effect
   d. Moves the economy along the aggregate demand curve

5. A cut in direct taxes on households' income…
   a. Has no effect
   b. Shifts the aggregate demand curve to the left
   c. Shifts the aggregate demand curve to the right
   e. Moves the economy along the aggregate demand curve

6. As higher is the MPS
   a. Lower is the multiplier.
   b. Higher is the investment spending
   c. Higher is the equilibrium income.
   d. All the answers are right

7. A decrease in the MPC may cause:
   a. A fall in the equilibrium income
   b. An increase in the equilibrium income.
   c. It does not affect the equilibrium income
   d. The government spending multiplier rise

8. To increase the money supply, the bank central could:
   a. Cut taxes
   b. Purchase bonds in the open-market
   c. Encourage people to held more cash (currency in circulation)
   d. Increase the government spending

9. The variable that connect the market of money and the market of goods via investment spending is:
   a. The MPC   b. The interest rate
   c. The MPS   d. The CPI

10. Point out the monetary policy instrument:
    a. An increase in direct taxes
    b. Open-market operations
    c. Freezing pensions
    d. A cut in government purchase of goods and services

SOLUTIONS TO MULTIPLE-CHOICE QUESTIONS

01. b

02. a

03. d

04. a

05. c

06. a

07. a

08. b

09. b

10. b