

Homework 10 – KEY

Average: 76.45 + Opt GI bonus

Due on 8/4/2025, by 23:00

The tasks in this assignment were designed for the average student to solve independently after mastering the material. The answers provided here are written in an instructional manner to help you understand the problem-solving process for each task. If you continue to struggle with a task after reviewing this key, the difficulty may stem not from the task itself, but from having missed or overlooked some parts of the required material.

1. ✓ Which of the following is LESS likely to be the target of Contractionary Fiscal Policy?
 - 89%A. To decrease unemployment. *[CFP increases unemployment]*
 - B. To curb inflation. *[Cooling down the economy can lead to price reduction]*
 - C. To decrease the government's budget deficit. *[Both decrease in government spending and increase in taxes reduce government's deficit]*
 - D. To decrease households' disposable income. *[CFP could be conducted by tax hikes]*
2. ✓ Which of the following combinations of policies would be more suitable for a country with high debt and deflation?
 - 14%A. Expansionary Fiscal Policy and Expansionary Monetary Policy.
 - B. Expansionary Fiscal Policy and Contractionary Monetary Policy.
 - 83%C. Contractionary Fiscal Policy and Expansionary Monetary Policy.
 - D. Contractionary Fiscal Policy and Contractionary Monetary Policy.
[CFP would decrease government deficit, while EMP would put upward pressure to the price level]
3. ✓ Which of the following may happen when the real interest rate in an economy becomes negative?
 - A. Consumption will fall. *[If money becomes cheaper, consumption will tend to increase]*
 - B. Prices will tend to decrease. *[The cheap money will stimulate demand for consumption and prices will tend to increase]*
 - 95%C. Investment will tend to increase. *[Investment is negatively related to the real interest rate]*
 - D. The quantity of loans will tend to decrease. *[When money is cheaper, people will want to borrow more of it]*
4. ✓ The Central Bank applies Contractionary Monetary Policy immediately after the government has conducted Expansionary Fiscal Policy. Why?
 - A. To accelerate the effects of the fiscal policy. *[CMP would limit the impact of EFP on the economy]*
 - B. To stimulate investment. *[CMP actually reduces investment]*
 - C. To decrease the government deficit. *[CMP has nothing to do with government budget]*
 - 94%D. To ease potential inflation caused by EFP. *[Extended EFP by the government may lead to unintentional increase in the price level, so the CB by conducting CMP could increase the interest rate and cool down the economy]*

5✓ Which of the following did the Great Depression and the 2007-09 financial crisis have in common?

- A. For both, the main cause was the collapse of major financial institutions. *[This happened only in 2007]*
- 94%B. **For both, the main cause was the inadequate regulation in financial markets.** *[There were regulation gaps in the stock market and in the housing market, which led to the Great Depression and the 2007-09 financial crisis, respectively]*
- C. For both the main cause was a stock market bubble. *[This happened only in the Great Depression]*
- D. Both crises lasted more than a decade. *[The 2007-09 financial crisis lasted about 2 to 3 years]*

6* How can the government immediately stabilize a shock that started from the CB decreasing the money supply?

- 80%A. By increasing G .
- B. By decreasing G .
- C. By increasing t .
- D. By decreasing t .
- 14%E. **None of the above.**
[The government does not have stabilization role or stabilization tools to neutralize monetary shocks]

7✓ Which of the following exacerbated the Greek recession?

- A. Extremely high interest rates discouraged private investment.
- B. ECB left the Greek commercial banks with no reserves.
- 93%C. **Greece had no means to conduct both Fiscal and Monetary Policy.**
- D. Greece relied excessively on its tourism, which lost its momentum.
[Because of Greece's high levels of debt, IMF, ECB and the European Commission forced the Greek government to intense austerity and left it with no funding for EFP. In addition, common currency within the Eurozone leaves no room for Monetary Policy]

8✓ How could the Central Bank stabilize the interest rate after a round of Expansionary Fiscal Policy?

- A. By increasing G . *[CB does not control the government spending]*
- B. By increasing t . *[CB does not control the tax coefficient]*
- C. By legislating regulation. *[The interest rate is not stabilized with regulation]*
- 91%D. **By increasing M_s .** *[The increase in output resulting from the EFP will cause an increase in money demand. The CB will increase the money supply to relieve the pressure from the interest rate]*

9 Which of the following is accurate?

- A. A shock from the money market cannot be transmitted to the commodity market. *[False, can be transmitted with link 2]*
- B. A shock from the commodity market cannot be transmitted to the money market. *[False, can be transmitted with link 1]*
- 49%C. **A shock from the money market cannot be stabilized by the commodity market.** *[Correct, the commodity market cannot neutralize shocks]*
- 47%D. **A shock from the commodity market cannot be stabilized by the money market.** *[False, the CB can stabilize shocks in the money market]*

10. In which of the following it is likely for deposits to determine loans for investment?

60%A. When reserves are scarce.

33%B. When reserves are ample.

C. Both A and B.

D. None of the above.

[When reserves are scarce, commercial banks' ability to loan out depends on deposits and the reserve ratio imposed by the CB. On the contrary, under the ample reserves regime commercial banks have access to unlimited reserves by the CB]