

Final Examination ECO 1001 Fall 2021 Prof. Cameron Weber

The way this works is that you send me an email to my hotmail account as listed in the syllabus telling me your answers to these questions, be sure to indicate which class you are in in the subject line of the email. Answer t/f or the letter answer for each question. The best way is to just send a direct email with the answers, instead of an attachment.

40 Questions, 2 ½ Points each. Choose the *best* Answer.

True or False

1. T or F. Sowell's rule is that it is in politician's self-interest to plan for future generations by balancing the public budget now.
2. T or F. A "natural rate" of interest emerges when borrowers and savers exchange time-preferences in the Loanable Funds market absent central bank interventions.
3. T or F. According to the Austrian (Hayekian) explanation for the business cycle, central bank manipulation of the interest rate leads to a more robust and sustainable capital structure for the long-term in the economy.
4. T or F. An example of rent-seeking in a democracy is when a trade-association persuades the legislature to place trade barriers against foreign competition.
5. T or F. An example of rent-seeking is when an individual, firm or special-interest coalition uses the democratic process to get a state subsidy, barrier-to-entry preventing competition, or tax-break.
6. T or F. In the USA the local sales tax is used to fund for example local parks, police, emergency medical services and fire prevention because they can be seen to be local public goods.
7. T or F. Because of government-guaranteed and direct student loans, college tuition is increasing less than general inflation.
8. T or F. Government sales tax intervention leads to a societal Deadweight Loss (DWL) due to a reduction in both consumer and producer surplus.
9. T or F. As we discovered through comparative advantage, trade barriers help everyone in the economy because *protectionism* "creates jobs" and decreases absolute poverty by helping to create economic growth (projecting out the possibility frontier).
10. T or F. An example of the Hayekian "knowledge problem" is that market participants in general know less than highly-educated regulatory economists about local economic conditions.
11. T or F. The National Bureau for Economic Research (NBER) has superior knowledge and can tell us instantaneously where we are on the business cycle, ensuring that macro policy interventions are timely and accurate.

12. T or F. Hayek's "Use of Knowledge in Society" (1945) describes how in general government price controls at centralized levels can alleviate social crises in local and decentralized situations.
13. T or F. Trade barriers lead in general to a transfer of surplus from *producers* (some people) to *consumers* (everyone).
14. T or F. If a central bank buys bonds on the open market the money supply *decreases*.
15. T or F. If a country were to make property rights more enforceable (economic freedom) then we should expect GDP to grow more quickly, all else being equal.
16. T or F. "Subjective Utility" is the concept that utilitarian central-planners know better than individuals what is best for these individuals themselves.
17. T or F. The Labor Force Participation Rate is higher today than it was before the interventions leading to the Great Recession and then through today's covid-era.
18. T or F. Realization of subjective utility through catallactic exchange is facilitated by state paternalism limiting choice and consumer sovereignty.
19. T or F. As discussed in class, one reason why inflation in the higher education and medical fields has been greater than general inflation is because government policy shifts-out Demand in these markets, while preventing Supply to shift-out due to rent-seeking by special (vested) interests.
20. T or F. According to the research conducted by Gregory Mankiw and as discussed in class, most economists believe the minimum wage especially helps those with less skills, experience and education.

Multiple Choice

21. According to "Hayekians" which is the most sound and prudent macroeconomic policy?
- a) When the national government balances its budget every year ("balanced budgets")
 - b) When Keynesian economics is used for stimulus to centrally guide the economy to full employment ("manage the debt over the business cycle") and when the national income is growing faster than the rate of debt creation
 - c) State debt is not a concern as long as national income is growing faster than the interest rate for national debt issuance ("debt doesn't matter").

22. Anne Krueger in “The Political Economy of the Rent-Seeking Society” (1974) finds,

- a) The more rent-seeking intervention there is the more efficient is the economy
- b) The more rent-seeking there is, the less the market can efficiently allocate society’s scarce resources and eventually the ‘market’ (voluntary cooperation through exchange) will stop working
- c) Rent-control improves the quality and quantity of rental housing.

23. According to Austrian (Hayekian) capital and business-cycle theory, when the central bank lowers the interest rate below the natural rate of interest emerged in the Loanable Funds market, this creates incentives which can,

- a) Artificially elongate society’s capital structure towards unsustainable longer period investment
- b) Cause prolonged under-employment as investment becomes “stuck” into these bad investments
- c) Create crony-capitalism as bad long-period investments get bailed-out
- d) All of the above

24. Collective goods are characterized by,

- a. You can’t exclude people from consumption
- b. Resources are infinite
- c. Goods are divisible by use and ownership

25. Which is the best description of “agency capture theory”?

- a) When a state agency imposes a sales or income tax
- b) When state regulators are dependent for their existence over time upon information from the people they regulate
- c) When a regulatory agency catches someone in a fraudulent act violating someone else’s negative rights.

26. From the *Captured Economy* (Lindsey and Teles, 2017), we learn that,
- a) Rent-seeking has been increasing since the 2008 bailouts
 - b) Capture has meant less economic growth
 - c) Capture has meant increasing inequality
 - d) All of the above
27. We learn from the NY Federal Reserve Bank January 2021 report that monetary easing under the covid-era leads to a,
- a) Direct channel into economic growth
 - b) Greater impact on job-creation than asset appreciation
 - c) Greater asset appreciations than job-creation
28. When evaluating the relationship between the money side of the economy ($M*V$) and the real side of the economy ($P*Q$), we learn that the *Austrian school* believes that,
- a) An increase in the money supply will lead to real economic growth
 - b) An increase in the money supply only leads to higher prices in the real economy
 - c) An increase in the money supply leads to an increase in asset prices (like housing, the stock-market and skyscrapers) and does not predominantly effect real output.
29. The Fisher Effects equation as applied to international capital flow relates to the relationships between
- a) Political campaign contributions and being the beneficiary of ‘stimulus’ spending
 - b) Expected real returns on an investment based on nominal rates of return minus expected inflation
 - c) Expected corporate welfare and national income

30. “Creative Destruction” describes how,

- a. In the business cycle new ideas and technologies replace old investments, creating increasing standards of living over the long-term when bankrupt investments are freed to seek their highest return into something new
- b. In the business cycle new ideas and technologies replace old investments, creating increasing standards of living over the long-term when bankrupt investments belonging to special-interest groups are bailed-out preventing the reallocation of assets
- c. War creates wealth and ends depression, and is not death and destruction

31. If a government spends more than it taxes ($G > T$), it would likely,

- a. Lend money to a bank or other financial institution
- b. Borrow money from a bank or other financial institution
- c. Buy bonds directly from the public
- d. Sell bonds and/or print money to create and pay for the debt

32. The reason that, as illustrated in principle with Hayek 1945, anti-gouging price controls create social crises is that,

- a. Anti-gouging price-controls encourage Supply of the necessary to shift-out after a natural or man-made disaster
- b. Anti-gouging price-controls discourages Supply of the necessary to shift-out after a disaster
- b. Regulators espousing ‘anti-price gouging’ rules know better than the market what prices should be so that when the private-sector reacts to market conditions by raising prices in the short-term this prevents people from rebuilding their homes after a disaster in the long-term

33. When looking for the reason(s) for the housing boom-and-bust leading to the 2008 Financial Crisis we find that,

- a) The US Government (through Fannie Mae and Freddie Mac) did not guarantee mortgage-backed bonds and this led to a shortage of people willing to buy housing through mortgages and for banks to supply these mortgages leading up to the crisis
- b) Due to regulatory capture, the bond rating agencies provided overly-accurate risk-ratings on the Mortgage-Backed Bonds (MBSs) and this led to under-investment in MBSs in the international banking system leading up to the crisis
- c) Due to regulatory capture, the bond rating agencies provided overly-generous risk-ratings on the Mortgage-Backed Bonds (MBSs) and this led to over-investment in MBSs in the international banking system leading up to the crisis

34. We discussed several reasons why the state might want to see students indebted, these include,

- a) Subsidized tuition means that universities receive more revenue and thus are more willing to support a statist agenda
- b) Student loans means profits for private lenders, lenders who donate to both the Republican and Democrat parties who control government, by definition an example of rent-seeking
- c) Indebted people do not question the 'ruling class'
- d) All of the above might be true depending on depending on the 'pre-analytical vision' of who is telling the story and the economics they use to tell the story.

35. One of the lag-times in *Fiscal* Policy is

- a) The time it takes for commercial banks to lend out the money they receive from the central bank by selling the central bank bonds
- b) The time it takes for the commercial banks to receive loans from the central bank by borrowing money from the central bank at high rates of interest for short periods of time and with good collateral
- c) The time it takes for the government to put together a budget, for the legislature to pass the budget, for the administration to spend the budget and the time it takes for these expenditures to filter through the economy

36. “Pushing on a string” in *Monetary* Policy refers to the situation in which,
- Eventhough interest rates are held below the “natural rate” by the central bank, entrepreneurs aren’t borrowing from the commercial banks because of regime uncertainty in the rule of law
 - Government borrowing does not crowd-out private borrowing in the Loanable Funds market
 - Government fiscal policy in not necessary to get the economy going again
37. The Philips Curve shows the relationship between,
- Inflation and the money supply
 - Inflation and unemployment
 - Government spending and economic growth
38. What does ‘crowding-out’ mean?
- When people wait on-line at the store
 - For example when the welfare-state replaces historically local and decentralized mutual cooperating
 - When many people enjoy a new idea or technology and therefore then this creates positive market-spillovers
39. Monetary policy is regressive because,
- Easy money can mean less purchasing power for the “the poor” (those with less disposable income)
 - Easy money can mean asset market increases for “the rich”
 - Both a) and b) may be correct depending on the historical and contextual situation
40. Examples of economic freedom are, as discussed in class and as noted in the Frazier Institute findings
- Free trade
 - Predictable Rule of Law
 - No state control on international capital-flows
 - All of the above encourage long-term economic growth