**CHAPTER 17**

1. Which of the following factors will lead to *higher equilibrium level of inflation* in a country that suffers from inflation bias?
2. The central bank starts to care more about inflation
3. The central bank starts to care less about unemployment
4. The central bank becomes more independent
5. **Nominal rigidity increases ( falls) so the Phillips curve becomes flatter**
6. Nominal rigidity decreases ( increases) so the Phillips curve becomes steeper
7. Consider two countries A and B which suffer from inflation bias. The economies are identical except that nominal *wages are more rigid in country A*. Which of the following statements is correct about the long run equilibrium when we treat policy as endogenous?
8. Inflation is higher and unemployment is lower in country A
9. Inflation is lower and unemployment is higher in country A
10. Inflation is lower and unemployment is the same in country A
11. **Inflation is higher and unemployment is the same in country A**
12. Consider two countries A and B which suffer from inflation bias. The economies are identical except that the *central bank is less concerned about unemployment in country A*. Which of the following statements is correct about the long run equilibrium when we treat policy as endogenous?
13. Inflation is higher and unemployment is lower in country A
14. Inflation is lower and unemployment is higher in country A
15. **Inflation is lower and unemployment is the same in country A**
16. Inflation is higher and unemployment is the same in country A
17. What information is sufficient to calculate the long run level of net debt relative to GDP?
18. The deficit relative to GDP and the growth rate of real GDP
19. **The deficit relative to GDP and the growth rate of nominal GDP**
20. The primary deficit relative to GDP and the growth rate of real GDP
21. The primary deficit relative to GDP and the growth rate of nominal GDP
22. A country has a deficit which is stable at 2 percent of GDP. Inflation is 4 percent and real growth is 4 percent. At what level will the net debt ratio stabilize?
23. **25 percent of GDP**
24. 30 percent of GDP
25. 1/3 of GDP
26. 40 percent of GDP
27. 50 percent of GDP
28. What level of taxes relative to GDP are required to keep the net debt ratio, D/Y, constant if government consumption is 25 percent of GDP, government investment is 4 percent of GDP, net debt is 150 percent of GDP and the real interest rate and the real growth rate are both 2 percent?
29. 21 percent of GDP
30. 25 percent of GDP
31. **29 percent of GDP**
32. 32 percent of GDP
33. 35 percent of GDP
34. What level of taxes relative to GDP are required to keep the net debt ratio constant if government consumption is 25 percent of GDP, government investment is 4 percent of GDP, net debt is 150 percent of GDP, the interest rate is 4 percent, there is no inflation, and real GDP is constant?
35. 21 percent of GDP
36. 25 percent of GDP
37. 29 percent of GDP
38. 32 percent of GDP
39. **35 percent of GDP**
40. Which of the following would, in theory, give the best outcome for the stability of inflation and real GDP?
41. **A binding rule of behavior for monetary policy**
42. A fixed norm for inflation
43. Delegation of monetary policy to a conservative central banker
44. A fixed norm for the money growth rate