**Economics of Regulation**

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**Colloquium questions**

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| 1 | Draw in a diagram how the curve or curves should shift in the IS-LM model of a closed economy with fixed prices, and explain in a sentence or two the reason(s) for the shift(s).  An increase in government purchases financed by borrowing. |
| 2 | Calculate the multiplier for an economy where the marginal propensity to consume is . By how much will national income increase in total if there is an investment of $ ? |
| 3 | Describe how the IS curve summarizes the relationship between the interest rate and the level of income. |
| 4 | Assume that the marginal propensity to consume is . The government wishes to increase the equilibrium gross domestic product by $ million. This can be achieved either by increasing government spending or decreasing taxes.  (a) Calculate the necessary increase in government spending (∆G) and the multiplier effect?  (b) Calculate the necessary decrease in taxes (∆) and the tax multiplier?  (c) Calculate the equilibrium multiplier |
| 5 | Consider a small open economy described by the following equations:  Y = C + I + G + NX  Y =  G =  T =  C =  I =  NX =  r = r\* =  where NX is net exports (or the balance of trade: the value of a country's total exports minus the value of its total imports), G is government expenditure, I is investment, C is consumption, T is tax, ε is exchange rate, r\* is the world interest rate.  (a) In this economy, compute national saving, investment, the trade balance, and the equilibrium exchange rate.  (b) Now suppose the G decrease to . Compute national saving, investment, the trade balance, and the equilibrium exchange rate. Explain the relationship between government spending and the exchange rate based on your economic intuition and calculation results. |
| 6 | Consider a hypothetical small open economy described by the following equations:   |  |  | | --- | --- | | Y = C + I + G + NX | C = (Y-T) | | Y = | I = | | G = | NX = | | T = | r = r\* = |     where NX is net exports (trade balance), G is government expenditure, I is investment, C is consumption, T is tax, ε is exchange rate, r\* is the world interest rate.  (a) In this economy, compute national saving, investment, the trade balance, and the equilibrium exchange rate.  (b) Now suppose the world interest rate rises from 5 % to 7%. (G is again 1000). Solve for national saving, investment, the trade balance, and the equilibrium exchange rate. Explain what you have found. |
| 7 | Assume the following model of the economy, with the price level fixed at 1.  The consumption function is given by  The investment function is  Government purchases and taxes are both  (a) Write a numerical formula for the IS curve, showing Y as a function of r alone.  The money demand function is  The money supply is .  (b) Write a numerical formula for the LM curve, showing Y as a function of r alone.  (c) Find equilibrium interest rate r and the equilibrium level of income Y. |
| 8 | Suppose the government decides to decrease taxes in an effort to increase consumer spending and investment in the economy.  (a) Will this plan succeed in accomplishing both goals?  (b) In equilibrium, what happens to interest rates as a result of this action?  (c) Would you characterize this as a case of fiscal crowding out? Explain. |
| 9 | Suppose velocity of money V is constant, money supply M is growing per year, real GDP Y is growing per year, and real interest rate r =  (a) Solve for i (the nominal interest rate).  (b) If the Central Bank increases the money growth rate by 2 percentage points per year, find Δi.  (c) Suppose the growth rate of Y falls to 1% per year.  What will happen to inflation rate π?  What must the Central Bank do if it wishes to keep π constant? |
| 10 | Consider a closed economy described by the following equations:  Y = C+I+G  Y =  G =  T =  C = + (Y-T)  I = -r  (a) In this economy, compute private saving, public saving, and national saving.  Find equilibrium interest rate.  (b) Now suppose that G rises to. Compute private saving, public saving, and national saving.  Find the new equilibrium interest rate.  (c) Using your knowledge of Macroeconomics and intuition explain the reason why increasing government expenditure causes interest rate to rise?  (d) If the government wants to increase the amount of savings in the economy, how should it alter government spending? What effect will this action have on the interest rate in the economy? |
| 11 | Why does the IS curve slope downward? Why does the LM curve slope upward? |
| 12 | Use the Keynesian cross to explain why fiscal policy has a multiplied effect on national income. |
| 13 | Use the theory of liquidity preference to explain why an increase in the money supply lowers the interest rate. What does this explanation assume about the price level? |
| 14 | How monetary Policy Shifts the LM Curve and Changes the Short-Run Equilibrium |
| 15 | Describe the interaction between Monetary and Fiscal Policy. Fiscal and monetary interaction in Azerbaijan. |
| 16 | What is the impact of an increase in taxes on the interest rate, income, consumption and investment? |
| 17 | Describe economic downturn in Azerbaijan after negative oil price shock. Describe fiscal and monetary policy implemented to reduce the negative impacts of the shock. |
| 18 | Describe government’s six principles of economic regulation. |
| 19 | Describe the following theories of regulation: Public interest theory. Capture theory. Stigler’s regulation. |
| 20 | Describe the three types of regulation and the importance of economic regulation. |
| 21 | Evaluate two policies that may be used by governments to reduce external costs of production (negative externalities of production). Answer the question using demand and supply curves. |
| 22 | Explain the abuse of monopoly power as a market failure. Answer the question using demand and supply curves. |
| 23 | Lack of public goods and government’s response. |
| 24 | Undersupply of merit goods and government’s response. |
| 25 | Imperfect information and competition. Government intervention (legal measures to make markets more competitive). |

**Colloquium 2 questions.**

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| 1 | Anti-inflation policy and price regulation. |
| 2 | Explain oil price shocks and regulatory measures taken by Azerbaijani government. |
| 3 | Macroeconomic management: Why treat oil, gas and mineral revenues differently? |
| 4 | Explain Dutch Disease and Absorptive Capacity. |
| 5 | How is absorptive capacity related to Dutch disease? |
| 6 | Policy options to address Dutch disease and absorptive capacity constraints. |
| 7 | Describe volatility and choices for managing a shortfall. |
| 8 | Ratcheting effect of volatility: Over-borrowing (public sector). |
| 9 | Costs of macroeconomic volatility. |
| 10 | Theory of managing volatility (optimal responses to shocks). |
| 11 | How should government respond to an increase or decrease in oil prices? |
| 12 | Fiscal policy to address volatility. |
| 13 | Define oil revenue hedging. |
| 14 | Finite nature of oil revenues and raised questions. |
| 15 | Explain and illustrate the threat to sustainability posed by the use of resources and over-exploitation in developing countries. |
| 16 | Sustainability via Extraction Rate: Hotelling’s Rule. |
| 17 | Sustainability via Investment: Hartwick’s Rule. |
| 18 | Sustainability via Savings: Permanent Income Hypothesis (PIH). |
| 19 | Sustainability via Savings: Bird-in-hand (BIH). |
| 20 | Policy options to promote fiscal sustainability and intergenerational equity. |
| 21 | What are the fiscal rules in resource rich countries? |
| 22 | Classification and purposes of Sovereign Wealth Funds. |
| 23 | State Oil Fund of Azerbaijan (SOFAZ): main features, mission and objectives. |
| 24 | Budget expenditure classification. |
| 25 | Budget system and budget cycle. |

Final questions

1. Strategic development goals of Azerbaijan.

2.       Agricultural policy in Azerbaijan and implemented policy measures.

3.       What is agricultural policy? Describe agricultural input and output markets.

4.       State regulation of entrepreneurial activity in Azerbaijan.

5.       Agricultural policy in EU (common agricultural policy – EU budget share)

6.       Agricultural policy and WTO.

7.       Should stabilization policy be active or passive?

8.       Describe automatic stabilization policies.

9.       What is the Lucas Critique?

10.   Should policy be conducted by rule or discretion?

11.   Give some examples of time inconsistency problems in the implementation of stabilization policies.

12.   Describe nominal GDP targeting policy rule.

13.   The Ricardian view of government debt vs the traditional view of government debt.

14.   Balanced budgets versus optimal fiscal policy.

15.   Fiscal effects on monetary policy.

16.   Why sustainable development is necessary in resource-led countries? What is the state mechanism in Azerbaijan?

17.   Dutch disease consequences.

18.   The effects of exchange rate volatility on trade and FDI.

19.   Budget support and tax incentives in national economy of Azerbaijan.

20.   Pro-cyclical fiscal policy.

21.   Trilemma and impossible trinity.

22.   Fiscal instruments common in extractives

23.   Standards and regulations in international trade.

24.   The race between technological progress and the growth drag (associated with non-renewable resources).

25.   Structural, investment and innovation policy of Azerbaijan.