

Name \_\_\_\_\_

Please answer 40 of the following 42 questions. Mark clearly the two you are deleting.

Except where otherwise noted assume a Keynesian model.

1-5)

If there is an autonomous decrease in investment, how, if any would this affect:

output 1) \_\_\_\_\_

private savings 2) \_\_\_\_\_

and interest rates 3) \_\_\_\_\_

4) To offset these effects, how, if any, should fiscal policy be adjusted?

\_\_\_\_\_

5) If monetary policy were used instead, how should it be adjusted?

\_\_\_\_\_

6-9)

6) How would a tax cut affect consumption? \_\_\_\_\_

7) What would determine how much output would be affected? \_\_\_\_\_

\_\_\_\_\_

If Ricardian equivalence held, how would this tax cut affect output?

8) \_\_\_\_\_

and private savings? 9) \_\_\_\_\_

10) Explain whether the simple Keynesian model would hold better if unemployment were above or below its natural rate.

\_\_\_\_\_

\_\_\_\_\_

11) If inventories are falling rapidly explain what this would tell us about the outlook for output growth. \_\_\_\_\_

\_\_\_\_\_

12-13)

12) Under flexible exchange rates and a constant money supply, explain how a fiscal expansion would influence the value of the currency in the foreign exchange market if capital mobility is low?

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13) Explain how, if any, the effects would change if capital mobility is high.

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14-15)

Explain how, if any, an increase in capital mobility would affect the strength of fiscal policy under fixed exchange rates? 14) \_\_\_\_\_

\_\_\_\_\_

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Explain how, if any, the answer would change for flexible exchange rates.

15) \_\_\_\_\_

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16-17)

Explain whether under fixed exchange rates a country could have an effective monetary policy in the short run if capital mobility was perfect.

16) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Explain how, if any, your answer would change if capital mobility were low.

17) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

18) If a country has a capital inflow under flexible exchange rates, what, if anything, can we say about its current account? \_\_\_\_\_

19) What role, if any, did inflationary expectations play in the original Phillips curve? \_\_\_\_\_  
\_\_\_\_\_

20) How, if any, does the ratio of flexible price markets to sticky price markets affect the shape of the short-run aggregate supply (AS) curve? \_\_\_\_\_  
\_\_\_\_\_

21) How, if any, does the modern Keynesian Phillips curve differ from the original one? \_\_\_\_\_  
\_\_\_\_\_

22) How, if any, would a substantial increase in unemployment affect inflationary expectations? \_\_\_\_\_  
\_\_\_\_\_

23) What is the sacrifice ratio? \_\_\_\_\_  
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24) How, if any, would a shift from adaptive to rational expectations affect the sacrifice ratio?

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25) Explain how, if any, the credibility of an anti-inflation policy would affect the sacrifice ratio.

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26-28)

26) What is the Taylor principle? \_\_\_\_\_

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27) According to this analysis what was the major cause of the great inflation of the 1970s?

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28) According to the Taylor principle if a country is near full employment explain whether it would be better for the monetary authorities to follow a constant money supply or interest rate policy in the face of a fiscal expansion?

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29) Explain how, if any, variability in the demand for money affects the case for following a monetary growth rate?

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30-31)

30) What is the time inconsistency problem?

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31) How, if any, could this affect the credibility of a government announcement that while it is running a large budget deficit now to stimulate the economy, it will cut the budget deficits in the future?

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32-33)

32) According to modern Phillips curve analysis explain whether prices or quantities tend to react more quickly to changes in aggregate demand \_\_\_\_\_

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33) Explain how, if any, this affects the time inconsistency problem.

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34) Explain how, if any, lags in the effects of macroeconomic policies affect the case for rules versus discretionary policy?

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35-36)

35) What is the political business cycle? \_\_\_\_\_

36) How, if any, would the slope of the short run AS curve affect the incentives to engage in a political business cycle? \_\_\_\_\_

37-38)

37) Explain the concept of automatic stabilizer. \_\_\_\_\_

38) Under fixed exchange rates how, if any, would international trade affect the strength of automatic stabilization? \_\_\_\_\_

39) Explain whether in the face of a fall in aggregate demand a policy of constant interest rates or a constant money supply would work better. \_\_\_\_\_

40) What is the Lucas critique? \_\_\_\_\_

41) Explain how, if any, the Federal Reserve's monetary policy contributed to generating the recent financial crisis. \_\_\_\_\_

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42) "Taking macroeconomics is better than being stepped on by an elephant"

T \_\_\_\_\_ or T \_\_\_\_\_

*Have an excellent summer!*