1. (Fall 2011) Suppose consumers in Mexico permanently reduce demand for US goods. Use the AD-AS model to explain effects of this event on output and inflation rate in the US, in both the short run and the long run. Next, assume that the US central bank follows the Taylor rule. Use the MP curve to explain the effect of this event on the US real interest rate in the short run and in the long run.
2. (Fall 2011) Suppose the goal of central banking is to stabilize output and inflation. Suppose that a hurricane has damaged oil refineries in the south, and it takes 6 months to repair them. Can the US central bank achieve its goal by using monetary policy? Use the AD-AS model to explain your reasons.
3. (Fall 2011) The US central bank engaged in a permanent money contraction in 1980-1986. Use the AD-AS model to explain effects of this event on inflation and unemployment in the US in both the short run and the long run.
4. (Fall 2011) The Obama administration responded to the recent financial crisis by a large-scale temporary fiscal stimulus, but the unemployment rate is still higher than the level before the crisis. Some economists have proposed that the ineffectiveness of the fiscal stimulus is caused by Ricardian Equivalence and a supply-side tax cut is a better alternative. Do you agree with them? Explain your reasons using the AD-AS model.
5. (Fall 2011) The US central bank responded to the recent financial crisis by successive rounds of money expansion. Suppose that past money expansions caused the public to anticipate further money expansions in the future. Explain short-run effects of this anticipation on the yen-dollar exchange rate and Japan’s trade balance. Can Japan’s central bank prevent the yen-dollar exchange rate from changing? If yes, how? Display a diagram to illustrate the foreign exchange market equilibrium.
6. (Fall 2011) Use the Phillips curve framework to explain the time inconsistency problem in monetary policy? How is that related to rational expectations?
7. (Fall 2010) The financial crisis in 2007 was characterized by an initial commodity boom and a subsequent credit contraction. The Obama administration responded by a fiscal stimulus, but the economy is still in a recession. Use the AD-AS model to illustrate these events. What are the effects of these events on the euro-dollar exchange rate?
8. (Fall 2010) Suppose China temporarily reduces its order of new planes from the U.S. and increases its order from France. Use the AD-AS model to explain the effects of this event on the U.S. output and inflation rate, in both the short run and the long run. Should the Fed use monetary policy to stabilize output and inflation? If yes, how?
9. (Fall 2010) Suppose the labor laws are reformed such that the working hours are permanently reduced from 40 to 35 hours per week. Use the AD-AS model to explain the effects of this event on inflation and output, in both the short run and the long run. Should the Fed use monetary policy to stabilize output and inflation? If yes, how?
10. (Fall 2010) As a result of the financial crisis in 2007, the U.S. now is still in a recession, despite the fact that the Fed responded to the recession by a temporary money expansion. Use the Phillips curve to explain these events. How will your answer change if people believe that the money expansion is permanent and form rational expectations?
11. (Fall 2010) Assume that Ricardian Equivalence does not hold. Use the AD-AS model to illustrate the effects of a payroll tax cut on inflation and output. How will your answer change if Ricardian Equivalence holds?
12. (Fall 2010) A consumer has the following preference, $U(C_1, C_2) = ln(C_1) + ln(C_2)/(1+r)$, where $C_1$ is the 1st period consumption, $C_2$ is the 2nd period consumption $r$ is the real interest rate. Therefore, she prefers consumption smoothing. Suppose that her income in two periods is $(Y_1, Y_2)$, where $Y_1 < Y_2$. Use a diagram to explain the effects of a rise in the real interest rate on her consumption.