Study Questions for Final Exam

The exam will be written to be about 2 hours long. You will have the full three hours. I will bring recycled printer paper again.

Short Answers:
1. How does the yield curve change if the economy is expected to be entering a recession?

2. What is the likely shape of the yield curve when unemployment has reached its peak in a recession?

3. How does an increase in the rate of growth of the money supply affect nominal and real interest rates in the medium run?

4. How does a fiscal expansion affect the nominal and real interest rates in the medium run?

5. Explain the uncovered interest parity condition.


7. How does an increase in rate of saving affect the growth rate of the economy in the medium run?

8. Explain how an increase in government expenditure on education might affect the growth rate in the medium run and the in the long run. Define human capital.

9. Suppose the unemployment rate is below the natural rate. Will a temporary tax increase be very effective at slowing inflation?

10. Why is the growth rate of output equal to its medium-run rate at the bottom of recession?

Long Answers:

11. Explain how an increase in government transfers, such as social security or unemployment insurance, affect the economy in the short run. How might unemployment insurance affect consumption differently than a reduction in high bracket tax rates?

12. How is the medium-run rate of appreciation of the dollar against the euro determined? How does an increase in the growth rate of the US money supply affect the dollar-euro exchange rate in the medium run? How does a rise in the medium-run growth rate of US affect the dollar-euro exchange rate in the medium run?

13. How does an increase in future expected inflation affect expected future interest rates and the current nominal exchange rate?
14. Suppose the economy is entering a recession. If people expect the Fed to increase the future money supply, how do the prices of bonds and stocks respond? If people expect a fiscal expansion instead, how do the prices of bonds and stocks respond?

15. How does a fiscal expansion in the US affect net exports, output and investment in Canada in the short run? (The Canadian dollar floats against the US dollar.)

16. Continuing question 15, how does the US fiscal expansion affect the Canadian economy in the medium run?

17. As of today, the unemployment rate is 20% in Spain and about 8% in France and Germany combined. Why would an macroeconomist suggest that the European Central Bank should increase money growth so that inflation in France, Germany and Italy rise to reduce unemployment in Spain (and other high unemployment euro area countries)?