

ECON 300

Advanced Macroeconomics

27 January 2011

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Final Exam

1. **(20 Points)** An unexpected invention makes supersonic transportation substantially cheaper and quicker. This invention is expected to raise overall productivity both in the current period and in the future period. What will happen to current values of **N**, **I**, **C**, **Y**, **w**, and **r** in a *real-monetary intertemporal model*? Show. Do not forget to **illustrate** and **discuss** equilibrium effects and **verify** how this fits the stylized facts of the business cycle.

2. (20 Points) Fatma derives utility from consuming two goods: leisure time and consumption goods. Her job affords her flexibility with respect to the amount of hours she works, but the amount of time she has available to split between leisure and working is limited to 24 hours. One day the prime minister of NoWhereLand ordered all his people (families) to have at least 3 children. Taking the prime minister's suggestion seriously, Fatma, who already has one child, decides to give birth to second and third children, and permanently increase her leisure time, independent from wage or any other factors. Suppose that there are 10 million Fatma in this country and each behaves alike. What will happen to current values of N , I , C , Y , w , and r in a *real-monetary intertemporal model* plus *accommodative monetary policy for price stability*? Show. Do not forget to **illustrate** and **discuss** equilibrium effects and **verify** how this fits the stylized facts of the business cycle.

3. (20 Points) There is a general election in mid 2011 in NoWhereLand. All polls indicate that no party will dominate in the election, and a coalition is more than impossible. There is an increasing uncertainty in the current economy. Plus, due to coming elections, the current government is printing money. What will happen to current values of N , I , C , Y , w , and r in a *real-monetary intertemporal model*? Show. Do not forget to **illustrate** and **discuss** equilibrium effects and **verify** how this fits the stylized facts of the business cycle.

4. (20 Points) How does an unexpected decrease in the money supply affect macroeconomic variables in a *segmented markets model*? Show. Do not forget to **illustrate** and **discuss** equilibrium effects and **verify** how this fits the stylized facts of the business cycle.

5. (20 Points) How does a decrease in current government purchases, anticipated to be temporary, affect current macroeconomic variables in a *real-monetary intertemporal model* plus *accommodative monetary policy for price stability*?

Hint: Do not forget to **illustrate** and **discuss** equilibrium effects and **verify** how this fits the stylized facts of the business cycle.