**I. Hakan Yetkiner**
**http://www.hakanyetkiner.com/**

**Izmir University of Economics**
**Department of Economics**

**ECON 300**

**Advanced Macroeconomics** **11 January 2012**

Dr. Yetkiner

**Final**

1. (**40 Points**) Suppose that firms in Turkey are become infected with *pessimism* due to global financial crisis, and they expect that uncertainty will be *higher* in the *current period*.

(a) Determine how does this affect current macroeconomic variables in a *Real Business-Cycle model*? (=what will happen to current values of **N**, **I**, **C**, **Y**, **w**, **r,** and **APL**)

(b) Following the shock in (a), suppose now that government would like to **stabilize fluctuations in GDP** by increasing government spending temporarily. What will happen to current values of **N**, **I**, **C**, **Y**, **w**, **r,** and **APL**?

(c) Following the shock in (a), suppose now that the monetary authority wants to **stabilize the price level** in the face of increasing uncertainty. Determine what it should do and how will it affect current macroeconomic variables?

Hint 1: Do not forget to **illustrate** and **discuss** equilibrium effects and **verify** how this fits the stylized facts of the business cycle, whenever applies.

Hint 2: In (b), stabilization of GDP must guide you in magnitude of changes.

2. (**20 Points**) Suppose that world economy is in year 2050 and you are the economic advisor to the president of the **United States of World**. The USW has the technology to produce robots that are *two times more productive* than human workers. The president is planning to replace human workers one-to-one with robots (this replacement can happen instantly) and asking you macro implications of the replacement. What will happen to current values of **N**, **I**, **C**, **Y**, **w**, **r** and **APL** in a *monetary intertemporal model*? Does the mechanic treatment of the question miss an important contribution of this replacement (recall the ultimate decision criterion of an economist)? 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**) 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.

4. (**20 Points**) How does an increase in the money supply affect macroeconomic variables in a *New Keynesian model* (=show the non-neutrality of money)?
Hint: Do not forget to **illustrate** and **discuss** equilibrium effects and **verify** how does this fit the stylized facts of business cycle?