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ECON 300
Advanced Macroeconomics **6 January 2015**
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Final Exam

1. (**25 Points**) Suppose that the Turkish economy is at equilibrium initially. However, Turkish policy makers are unhappy with the low level of private savings in Turkey. In response, they initiate a new saving incentive program, which forces households (consumers) to save more (to consume less). How does this affect current macroeconomic variables in a ***Monetary Intertemporal Model*** versus ***New Keynesian Model***? Show. Do not forget to **illustrate** and **discuss** equilibrium effects and **verify** how this fits the stylized facts of the business cycle.
Hint: Suppose that the New Keynesian approach assumes that the target interest rate does not change and that Turkish CB may follow accompanying monetary policy to hold price level fixed.

2. (**25 Points**) Suppose that the Turkish economy is at equilibrium initially. The Turkish prime minister however is facing two challenges. On the one hand, he is deeply unhappy with the low level of public-sector savings. On the other hand, there is general election in 6 months and he wants to stimulate the Turkish economy. If you were **New Classical** (monetary intertemporal model) and the economic advisor of the prime minister, what would you advise? Show. Do not forget to **illustrate** and **discuss** equilibrium effects.

3. (**20 Points**) How does an ***increase in money supply*** affect macroeconomic variables in the current macroeconomic variables in a ***Monetary Intertemporal (New Classical) 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 increase in money supply*** affect macroeconomic variables in the ***Friedman–Lucas*** ***money-surprise model*** in the ***short run*** and in the ***long run***? Show. Do not forget to **illustrate** and **discuss** the effects and **verify** how this fits the stylized facts of the business cycle.

5. (**20 Points**) How does an ***increase in money supply*** affect macroeconomic variables in a ***New Keynesian Model***? Show. Do not forget to **illustrate** and **discuss** the effects and **verify** how this fits the stylized facts of the business cycle.