Universität Bern | SS 1998/99
Monetary theory and policy II | Prof. Dr. Harris Dellas

Review Questions: Section 1

1. Consider the following test scores: 20, 18, 24, 20, 22, 26. Suppose that you randomly select 1 score and that you are also told that the score you have selected is not less than 20. What is the expected value of the selected score?

2. Is the Fisher equation consistent with adaptive expectations?

3. If there exists no relationship between the money supply and output in the long run there can be no relationship in the short run either. Comment.

4. According to Akerloff the long run Phillips curve is
   a) vertical b) vertical at high but negatively sloped at low rates of inflation
   c) vertical at high but positively sloped at low rates of inflation

5. What is the optimal rate of inflation in an economy with a substantial underground economy?

6. Suppose that the demand for real money takes the form $m = 2y^{0.5}e^{-0.2l}$. Derive the inflation rate that maximizes seignorage. (Note that $\frac{d}{dt}e^t = e^t$.)

7. Show that with leisure in the utility function, the steady state rate of output is not invariant to the inflation rate.

8. Which of the arguments linking inflation to long term economic activity do you consider plausible?

9. IS-LM: Some people have argued that the recent recession was caused by tight fiscal policy. Others that it was caused by tight monetary policy. Suggest a way to settle the dispute. (Assume that the tightness of fiscal or monetary policy is unobservable).

10. Under what conditions can a counter cyclical policy rule be effective?

11. What is the output multiplier associated with a perfectly predictable change in government expenditure?

12. An unanticipated productivity shock has a larger effect on economic activity than an anticipated one. Comment.

13. The greater the variability of inflation the steeper the Phillips curve. Comment.

14. Why doesn’t the Taylor model satisfy the natural rate hypothesis? Is this an important weakness?