Economics 470/570 **Name: _______________________________**
Winter 2007 **(1 bonus point if name is on *all* exam pages)**
Final Exam

Part I - Definitions. Define each of the following (2 points each, 12 points total).
1. Discount window and the discount rate
2. Required reserves and excess reserves
3. Velocity of money
4. Policy ineffectiveness proposition
5. Demand-pull inflation
6. Recognition lag

Part II. Answer FOUR of the following questions (7 points each, 28 points total).

1. Who is on the FOMC? What does the FOMC do?

2. Derive the aggregate demand curve from the IS-LM model and explain intuitively why it slopes downward.

3. Show graphically how output and the price level change in response to an expected change in the money supply in the New Keynesian model. Show both the short-run and long-run changes.

4. Explain the Monetarist view of aggregate demand. Explain why Monetarists do not believe that shifts in the IS curve affect aggregate demand.

5. What causes the LRAS curve to shift, i.e. what factors affect the natural rate of output? Does monetary policy affect output in the long-run?

Part III. Answer FOUR of the following questions (15 points each, 60 points total).

1. How independent is the Fed? What factors contribute to and what factors work against independence? Discuss arguments for and against the independence of the Fed.

2. Explain Poole's rules.

3. Explain the activist and non-activist positions on the use of government policy to stabilize macroeconomic variables such as real output. What problems are encountered in the pursuit of activist policies?

4. (a) What is the essential difference between New Classical and New Keynesian models? (b) Show that an increase in the money supply can reduce output in the New Classical model if the change in the money supply is smaller than expected.

5. Explain how policymaker’s pursuit of an output target that exceeds the natural rate can lead to inflation.