Macroeconomics for the Global Economy

PRACTICE WAIVER EXAM QUESTIONS

Some of the questions are vague, so it is important to state your assumptions clearly, and answer based on these assumptions. Except in cases when providing definitions, it is important to explain each step of your analyses.

1. Define: (a) the Federal Fund rate, (b) the FOMC, (c) ECB, (d) NAIRU, (e) quantitative easing.
2. Explain how monetary policy affects interest rates, employment, and output.
3. Which financial regulations increase moral hazard and how does moral hazard intensify economic fragility? Give examples.
4. From interest rate parity, if interest rates rise in the United States, what will tend to happen to interest rates or the exchange rate in Mexico? Explain why.
5. According to standard, textbook aggregate supply and demand analyses, what will happen to the unemployment rate in the short-run if government spending increases? According to this textbook mode of analysis, what will happen in the long-run? Explain the forces underlying each step of the analyses.
6. How might inflation both spur growth and harm potential output growth?
7. While it is very difficult to measure the natural rate of unemployment, the governments release exact data every month on the overall rate of unemployment. Why do we care about the natural rate of unemployment if we have a precise estimate of the overall rate?
8. According to the standard, textbook (Solow) model of economic growth, why is China’s growth rate slowing? What would happen to China’s level of income per capita if its high savings rate falls to historical norms? As China’s population ages and more people retire, what will happen to income worker, income per capita, and total production? Why?
9. If China eliminates controls on international capital flows, what will happen to its exchange rate?
10. Using standard macroeconomic tools analyze and explain why Japan’s economy has been stagnating for so long? What policies would have to change to address these challenges? What is Japan actually doing?
11. If you are an international investor, would you view a small, open economy in Africa more favorably if it adopted a fixed exchange rate or a floating exchange rate? Explain the pros and cons and the assumptions underlying your explanation.
12. If higher fiscal deficits raise fears of default on a country’s national debt, what will happen to interest rates, the exchange rate, and domestic investment?