Practice waiver exam questions for Macroeconomics for the Global Economy

The grade you receive depends solely on the quality of your explanation. 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. [10] Define: (a) the Federal Fund rate, (b) the FOMC, (c) ECB, (d) NAIRU.
2. [10] Why would the financial crisis of 2007-2009 have still happened even if housing prices did not rise?
3. [10] 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.
4. [10] 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.
5. [10] How might inflation both spur growth and harm potential output growth?
6. [10] While is very difficult to measure the natural rate of unemployment, the U.S. government 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?
7. [10] According to the standard, textbook (Solow) model of economic growth, what will happen to China’s level of income per capita and consumption per capital if (i) its high savings rate falls to historical norms and (ii) it eliminates the one-child policy? Why?
9. [10] 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.
10. [10] 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?

Reminders for some formulas

\[ Y = C + I + G + NX \]

Money market equilibrium: \[ M/P = L(Y, r) \]
Okun’s law: Output is about 2% higher when unemployment is about 1% lower.

Phillips curve: \[ \pi = \pi^e - \beta (u - \text{NAIRU}) + \nu \]

nominal interest rate \[ i = r + \pi^e \]

The Taylor rule is to set the nominal Federal funds rate
\[ = \pi + 2.0 + 0.5(\pi - 2.0) - 0.5 \text{ (GDP gap)} \]

Clarifications to consider:
- open vs. closed economy
- real vs. nominal
- short-term vs. long-term
- in a recession vs. near NAIRU

Note: These reminders are used every year. They may or may not be useful for this exam.