REVIEW QUESTIONS
MACROECONOMIC POLICY

1. What arguments should be considered in assessing the burden that government debt imposes on future generations .

2. How can government increase the quantity of aggregate output demanded by changing government spending and taxes?

3.Why does the multiplier for spending changes differ from that for tax changes?

4. How does a supply-side analysis of the effects of a tax cut differ from one that focuses solely on aggregate demand?

5. Is balancing the budget a contractionary macroeconomic policy?

6. Why are fiscal multipliers higher when the policy rate has hit the floor of the zero lower bound?

7. What determines whether budget deficits will result in inflation in the long run?

8. How does the Ricardian equivalence view of the effects of tax cuts (and budget deficits) differ from the traditional view?

9. What would happen to revenue from seignorage if the inflation rate was very high?
(Hint: check Equation 8 and assume a quickly rising price level. )

10. Differentiate the nominal and real exchange rates between dollars and Turkish Liras.

11. Do the two exchange rates move together?

12. Why is appreciation or depreciation of real exchange rates important?

13. How is the theory of purchasing power parity related to the law of one price? Why doesn't PPP hold in the short run?

14. Why does the foreign exchange market move toward equilibrium when the foreign exchange rate for the dollar is either above or below its equilibrium value?

15. Identify three factors that might cause the exchange rate for a currency to rise.

16. What are the short-run effects on aggregate output and the inflation rate when the domestic currency appreciates or depreciates?

17. Why do central banks intervene in foreign exchange markets? How do these interventions affect their international reserves and exchange rates?

18. How do fixed, floating, and managed (dirty) float exchange rate regimes differ?

19. What happens in a fixed exchange rate regime if a currency is overvalued? What problem can this create?

20. What are the advantages and disadvantages of exchange-rate pegging?