

REVIEW QUESTIONS
MACROECONOMIC POLICY

1. Describe the two primary objectives of macroeconomic stabilization policy.
2. Should policy makers strive to achieve zero rates of unemployment and inflation? Why or why not?
3. Distinguish between hierarchical and dual mandates. Which best describes the policy making environment in the United States?
3. What is the equilibrium real interest rate? How does it influence the interest rate decisions of Federal Reserve policy makers?
4. Is stabilization policy more likely to be conducted with monetary policy or fiscal policy? Why?
6. Why does the divine coincidence simplify the job of policy making? In what situations will it prevail? Why?
5. Summarize the main points of disagreement in the debate between activists and nonactivists.
6. Why do activists believe the economy's self-correcting mechanism is slow?
7. How does the Taylor rule relate to the monetary policy curve?
8. Would it be a good idea for monetary policy makers to set the federal funds rate solely using the Taylor rule?
9. How can the monetary authorities target any inflation rate they want?
10. Explain the processes of cost-push and demand-pull inflation. How do macroeconomists distinguish between the two?
11. How does the policy rate hitting a floor of zero lead to an upward-sloping aggregate demand curve?
12. Why does the self-correcting mechanism stop working when the policy rate hits the zero lower bound?
13. What nonconventional monetary policies shift the aggregate demand curve, and how do they work?