

Questions for Review (Ch 13)

- Explain the difference between demand-pull inflation and cost-push inflation.
- Under what circumstances might it be possible to reduce inflation without causing a recession.

Problem 13-3

- According to the RE approach, if everyone believes that policymakers are committed to reducing inflation, the cost of reducing inflation – the sacrifice ratio – will be lower than if the public is skeptical about the policymakers' intentions.
 - a. Why might this be true?
 - b. How might credibility be achieved?

Problem 13-5

- Assume that people have rational expectations and that the economy is described by the sticky-price model. Explain why each of the following propositions is true.
 - a. Only unanticipated changes in the money supply affect real GDP. Changes in the money supply that were anticipated when prices were set do not have any real effects.
 - b. If the Fed sets the money supply well after people have set prices, so that the Fed has collected more information about the state of the economy, then monetary policy can be used systematically to stabilize output.

Questions for Review (Ch 15)

- What are the inside lag and the outside lag?
 - a. Which has the longer inside lag – monetary or fiscal policy? Which has the longer outside lag? Why?
 - b. Automatic stabilizers have zero inside lag. True or false?
- Why might policymakers be attempted to renege on an announcement they made earlier? In this situation, what is the advantage of a policy rule?
- List three policy rules that the Fed might follow. Which of these would you advocate? Why?

Questions for Review (Ch 16)

- Describe four problems affecting measurement of the govt budget deficit.
- According to the traditional view of govt debt, how does a debt-financed tax cut affect public saving, private saving, and national saving?
- According to the Ricardian view of govt debt, how does a debt-financed tax cut affect public saving, private saving, and national saving?
- Give three reasons why a budget deficit might be a good policy choice.

Problem 16-3

- The Social Security system levies a tax on workers and pays benefits to the elderly. Suppose that Congress increases both the tax and the benefits. For simplicity, assume that Congress announces that the increase will last for one year only.
 - a. How do you suppose this change would affect the economy? (Hint: Think about the marginal propensities to consume of the young and the old.)
 - b. Does your answer depend on whether generations are altruistically linked?

Problem 16-4

- Some economists have proposed that the rule that the cyclically adjusted budget deficit always be balanced.
 - a. Compare this proposal to a strict balanced-budget rule. Which is preferable?
 - b. What problems do you see with the rule requiring a balanced cyclically adjusted budget?