

## **The New Normative Macroeconomics**

### *Additional Homework Problems*

ECON 3133

Dr. Keen

1. Comment on the validity of the criticism that the Fed was too aggressive in fight inflation in 1979.
2. Compare a policy of targeting the money supply to a policy of targeting the interest rate. Prepare a brief argument in favor of each type of policy by discussing the disadvantages of each policy.
3. Using the IS-LM method, show what the Fed must do to the money supply to reduce output by a certain percentage when there is a price shock. Could the same actions be undertaken by fiscal policy? Why might a mix of monetary and fiscal policies be used to reduce output after a price shock?