**Prep Questions for the Final**
ECON 3133
Dr. Keen

**Note**: This list of prep questions only includes the material since Exam #3. When studying for the Final, you should also review the prep questions from Exam #1, Exam #2, and Exam #3.

1. *Macroeconomic Policy & Price Adjustment Curves*: Suppose that the economy is initially at potential output. What are the short-run and the long-run responses of the inflation rate and the output gap if a rise government spending causes r* to increase but the Fed does not change $r^{e}$*? Use a macroeconomic policy curve and price adjustment curve graph to support your answer.

2. *Macroeconomic Policy & Price Adjustment Curves*: Suppose that the economy is initially at potential output. What are the short-run and the long-run responses of the inflation rate and the output gap if the expected inflation rate rises? Use a macroeconomic policy curve and price adjustment curve graph to support your answer.

3. *Costs and Benefits of Inflation*: Briefly describe the four types of economic costs of inflation discussed in class. What individuals benefit from higher inflation and which ones lose?

4. *Costs and Benefits of Output Loss and Unemployment*: Briefly describe the three types of economic costs of output loss discussed in class. What are the benefits and costs of unemployment for workers?

5. *The Federal Reserve's Balance Sheet*: Show how each of the following would initially affect the assets and liabilities of the Federal Reserve. Indicate the particular type of assets or liabilities that change.

   a. The Federal Reserve sells $100,000 in domestic credit to a bank.
   b. The Federal Reserve reduces its foreign reserves by $250,000 by conducting a sterilized foreign exchange intervention.

6. *World Financial and Monetary System*: State and briefly describe the macroeconomic policy trilemma. How do the United States, Germany, and Argentina differ in their approaches to the macroeconomic policy trilemma?

7. *Monetary Policy Rules in the World Economy*: Briefly describe how real exchange rates can have an indirect and direct effect on the target interest rate in a Taylor-style nominal interest rate rule. Based on research of the U.S. economy, does the real exchange rate have a direct effect on the Federal Reserve's target nominal interest rate?