Macroeconomics Final Exam

Spring 2015

The following question should be answered in paragraph form. You should address each of the sub-parts completely. You will need to make some calculations. You should show your work so that you could receive partial credit if you make a mistake. The exam is due by Friday June 26 at 11:59 PM Eastern Time.

Assume an economy where the current economic conditions include:

Unemployment stands at 10% and the Full Employment level is 5%.

Inflation is running between 1 and 2% on an annual basis

Long term interest rates are 2% and short term are near zero

Assume that the GDP is nominally at 15 Trillion Dollars

**What actions, if any, should policymakers take to increase employment and keep the price level low? Please include the following information in your answer…**

**Your specific approach to fiscal policy or whether you do not support the use of fiscal policy? (20 points)**

**Your specific approach to monetary policy or whether you do not support the use of monetary policy? (20 points)**

**What is the recessionary GDP gap as described in Okun’s Law? (10 points)**

**What are the risks of your approach, in the short term? (10 points)**

**What are the risks of your approach, in the long term? (10 points)**

**In the appropriate part of your answer make sure you mention Deficits (2), Aggregate Demand (2), Aggregate Supply (2), Exports (2), Imports (2), the Fiscal Multiplier and the Money Multiplier (2). There will be another 10 points allocated for the overall strength of your answer based on use of information from the course and addressing all these items.**

**There are a final 10 points allocated based on the quality of writing and consideration such as grammar and spelling.**

I would anticipate that the exam will be at least three pages double spaced. Completeness of answers is very important. Please let me know if you have questions. If you need to make assumptions about economic conditions, please state them.