

**INSTRUCTIONS:**

1. Answer **ONLY** the specified number of questions from the options provided in each section. Do not answer more than the required number of questions. Each section takes one hour.
2. Your answers must be on the paper provided. No more than one answer per page. Do not answer two questions on the same sheet of paper.
3. If you use more than one sheet of paper for a question, write "Page 1 of 2" and "Page 2 of 2."
4. Write **ONLY** on one side of each sheet. Use only pen. Answers in pencil will be disqualified.
5. Write ----- **END** ----- at the end of each answer.
6. Write your exam identification number in the upper right-hand corner of each sheet of paper.
7. Write the question number in the upper right-hand corner of each sheet of paper.

**Section 2: Macroeconomics and Monetary Theory—Answer One Question.**

- 2A.** (Econ 202) Discuss the business cycle by answering *all* of the following. As you answer each part, make sure you identify it with the appropriate letter:
- a) Define recessions and mention what characterizes them.
  - b) What typically happens to employment, output, investment, prices (or inflation), real wages, nominal interest rates, over the business cycle?
  - c) Relate your answers above to the shape of the short-rate aggregate supply curve and the role of expectations in shifting that curve.
  - d) Define stagflation - what is it, how does it differ from a typical business cycle, and why might it arise?
  - e) Explain why reducing unemployment below its natural rate (or NAIRU) may require accelerating inflation.
  - f) Identify and describe the two different ways that macroeconomists have modeled expectations.
  - g) Draw a dynamic aggregate-demand, aggregate-supply graph in output-price level space clearly identifying both axes and all three curves. Show what happens when the demand for money increases.

**2B.** (Econ 235) Analyze the demand for money by answering all of the following.

- a) Describe in words how changes in the demand for money affect the purchasing power of money, the price level, and real cash balances. Explain why this makes money like any other good.
- b) Draw a demand-supply (stock) graph for money correctly labeling all axes and curves. Why does the money demand curve have that shape? Indicate on the graph real cash-balances.
- c) Describe at least four factors that cause the demand for money to change.
- d) What is the relationship between the demand for money and the concept of velocity, and how does this relate to the equation of exchange?
- e) Describe how the demand for money behaves during hyperinflations and why it does so.
- f) What do economists mean when they say a change in the money stock is neutral and superneutral?
- g) Do New Keynesian models include money directly in their standard model? Why or why not?

(over)