Module: 2103Y Economic Regulation

Groups: 1001 and 1002

Lecturer: Laman Orujova

EXAM QUESTIONS

1. What is the goal of macroeconomists? Which tools do they employ while analysing macroeconomic processes in the economy?
2. What are the main propositions of classical economics?
3. How is the equilibrium level of employment established? Derive demand and supply curves for labour market equilibrium.
4. What is classical approach to employment? What was Keynes’s objections in this regard?
5. What is the main argument of Say’s Law? How do weak and strong versions of this Law differ?
6. Explain the quantity theory of money. Why is the monetary shock ineffective in classical model? Discuss and graphically illustrate the impact of monetary shock (increase in money supply) on the economy.
7. Derive the investment multiplier in the context of Keynesian closed economy.
8. What is the difference between the determination of interest rate in classical and Keynesian economics?
9. Discuss the impact of demand shock (decrease in aggregate demand) on Keynesian closed economy in case of rigid wages and policy implications.
10. Discuss the impact of demand shock (decrease in aggregate demand) on Keynesian closed economy in case of flexible wages and policy implications.
11. What does IS-LM curve represent? What factors affect the shifts of IS and LM curves?
12. Illustrate expansionary monetary and fiscal policies. Which negative effect may result from expansionary fiscal policy (increase in government expenditure)?
13. Keynes has described two limiting cases which may hinder the self-equilibrating capacity of the market given IS-LM curve and flexible money wages. Explain these cases.
14. What does BP (balance of payments) curve indicate in IS-LM-BP Model? Which factors affect the slope? Interpret the impact of these factors.
15. Graphically analyse the effect of expansionary fiscal policy under fixed exchange rate regime in open economy (with imperfect capital mobility).
16. Graphically analyse the effect monetary policy under fixed exchange rates in open economy (with imperfect capital mobility).
17. Graphically analyse the impact of expansionary fiscal policy under floating exchange rate regime (with imperfect capital mobility).
18. Graphically illustrate the impact of expansionary monetary policy under floating exchange rate regime (with imperfect capital mobility).
19. What are the main provisions and policy implications of Orthodox Monetarist School?
20. Explain the monetarist interpretation of Quantity theory of Money.
21. What is the empirical evidence and critique regarding the monetarist justification to Quantity Theory of Money?
22. Explain the Phillips curve in Keynesian economics and analyse expectations-augmented Phillips Curve in Monetarist economic theory.
23. What are the policy implications for expectations-augmented Phillips Curve?
24. Describe the monetary approach to balance of payments under fixed exchange rate regime. What are the policy implications in this regard?
25. Describe the monetary approach to exchange rate determination.
26. What is rational expectations hypothesis in new classical approach? What is the difference between “backward looking” adaptive expectations hypothesis and “forward looking” rational expectations hypothesis?
27. Explain the market clearing hypothesis of neoclassical school.
28. According to new classical aggregate supply hypothesis, work decisions of workers are assumed to be voluntary. Why? How does this statement contrast with Keynesian involuntary unemployment approach?
29. According to neoclassical theory, in which cases can the monetary policy have some effect on the economy? Discuss it in light of “signal extraction problem”.
30. What are the causes of cyclical instability? What is the stance of real business cycle school theory (RBCT)?
31. What is the business cycle? Define pro-cyclical, anticyclical and acyclical macroeconomic variables and give examples.
32. Illustrate the impact of technology shock on the aggregate level of output and employment.
33. What are the factors affecting the supply of labour according to RBCT approach? Describe two effects which play a decisive role in supply of labour.
34. What are the core propositions of New Keynesian Economics?
35. Explain the nominal wage and price rigidity in new Keynesian approach.
36. Describe the causes of real wage rigidity in efficiency wage models.
37. Explain the causes of real wage rigidity in case of implicit and insider-outsider approaches.
38. Describe the concept of NAIRU and hysteresis hypothesis by Phelps (1972).
39. What are the policy implications of new Keynesian approach?
40. Describe the new structuralist approach to the industrialization strategy of the country.
41. What are the negative consequences of Dutch disease in case of developing countries?
42. What are the differences between classical economics and new developmentalist school?
43. List the direct and indirect instruments of monetary policy.
44. Graphically describe and explain the response of monetary authorities to the situation where due to pessimistic view of the future events, the population decides to save more and consume less. Also describe the process automatic stabilization without state intervention.
45. Explain and graphically illustrate the response of monetary authorities to permanent negative aggregate supply shock. How would the economy behave if no-response approach is adopted?
46. Suppose that some industrial sectors in the economy are granted tax concessions for 3 years. What will be the effect of this change in the economy and the appropriate monetary policy response? Also describe the process of automatic stabilization.
47. List the possible problems (lags) related to policy implementation by the authorities.
48. Suppose that the government tries the raise the target inflation. How can it achieve that?
49. What are the recessionary and inflationary gaps in the economy and the corresponding fiscal response?
50. Describe the effect of government expansion and tax reduction on the aggregate output by deriving the consumption and tax multipliers respectively.
51. Imagine a small and closed economy is characterised with following information:

C = 200 + 0.8Y; I = 500 and G = 400, where C is total consumption, I is investment and G is the government expenditure.

1. What is the equilibrium level of total income (Y)?
2. Suppose that the total income Y has increased by 550 units as a result of expansionary fiscal policy. How much must the government purchase increase in order to achieve this?
3. Assume a small and closed economy where total output is expressed as the sum of total investments, consumption and the government expenditure. If the aggregate output is 1000, autonomous consumption is 250, marginal propensity to consume is 0.5, investment is 200 and government expenditure is 100;

a)       Find the level of household consumption and consumption multiplier.

b)      How much will the aggregate output change if government consumption is increased by 200 units?

1. Assume that Equilibrium Real GDP is $20,000 while Potential Real GDP is $15,000. The marginal propensity to consume is 9/10. Assume that government decides to lower taxes by $1,000. To pay for this, it lowers government purchase by $1,000. As a result of these two changes, what is the new Equilibrium Real GDP?
2. What are the propositions of supply-side fiscal policies? Explain the Laffer Curve.
3. What is the role of social transfers in reducing poverty?
4. What is the difference between unconditional and conditional social transfers? Give a real-life example for social transfers.
5. What is the argument for imposing tariffs for imports? How do tariffs affect the economy?
6. Graphically explain the effect of export subsidies on domestic and international prices.
7. Describe the effect of quotas on the economy.
8. List the arguments in favour and against the free trade.
9. What are the main duties of World Trade Organization?
10. Imagine that, the government has decided to curb budget deficit and to stop some large-scale investment projects financed by the government. Analyse the effect of this shock on the economy if a country is small and open operating under fixed exchange rate regime. What will happen to interest rate, exchange rate, current account balance and investment?
11. Describe the effect of contractionary monetary policy under floating exchange rate regime on following variables: interest rate, exchange rate, current account balance and investment.
12. Discuss the effect of expansionary monetary policies under floating exchange rate regime in the short-run and its effect on following variables: interest rate, exchange rate, current account balance and investment.
13. Suppose that, in a small, open economy, Central Bank has announced the easing on loans provided to the economy. What will be the impact on interest rates, exchange rates, investment and output.
14. In a small open economy operating under floating exchange rate regime, the government decides to cut income taxes. How will this decision affect the level of interest rates, exchange rates, investment and output?
15. Suppose that a small open economy operates under the fixed exchange rate regime and has pegged its currency to dollars. Describe the effect of following changes on exchange rate and the corresponding policy measures: the government has launched a new scholarship program on targeting the graduate students in local universities. How will interest rates, exchange rates, investment and output change?
16. In an open economy with fixed/floating exchange rates, which policy (monetary and fiscal) is more effective increasing output and employment? Discuss the both cases.
17. Which changes would occur in the economy if the government of the country with fixed exchange rate regime decides to devalue the national currency?
18. Describe how the currency crisis develops and the capital flight occurs.
19. Describe the general overview of the economy of Azerbaijan of pre-boom period.
20. Explain the fiscal policy of Azerbaijan in recent years.
21. Briefly describe the monetary policy of Azerbaijan in last decade.
22. Briefly describe the results of possible implications of resource dependence (Dutch disease) assessed by Hasanov (2014). In author’s opinion, is this economic phenomenon applicable to Azerbaijan?
23. What was the effect of recent oil price shock on the economy of Azerbaijan and the policy responses?