

1. Explain why canceling the final exam for this course would be an example of “time inconsistency.” Why would a visiting professor who will not teach at the same university next year be more likely to cancel the exam than someone who is continuing to teach there?
2. Suppose that the economy is in a recession. Show using AD, SRAS, and LRAS curves the original position of short-run equilibrium and show what will happen if the central bank uses active stabilization policy compared to what will happen if it does not.
3. Referring to the previous question, how long does it take to get back to full employment in each case? You should think carefully about what must happen for the economy to return to the LRAS on its own and the role of policy lags if the central bank acts.
4. The most common measure of a country’s indebtedness is the ratio of its government debt to GDP. Why is it appropriate to measure debt in relation to GDP rather than as a raw number?
5. In the list of indebted EU countries (Table 16-1 on page 501 of the text), none of the former Communist countries has a debt/GDP ratio above the EU average. Why do you think that is?