Masters Macroeconomics | Fall 2015
Short Questions #7 | Due: 18 November

1. Why does traditional monetary policy become ineffective when the nominal interest rate approaches zero?

2. Use the *IS/LM* model to explain the "spending hypothesis" and the "money hypothesis" as causes of the U.S. Great Depression. (Which curve shifts in each case and what outcomes we would observe.) Which is more consistent with the empirical facts? Why?

3. What is the "debt-deflation" theory? Under this theory, how does deflation affect spending?

4. One of the alleged causes of the large recession in the United States after 2008 was a reduction in house prices. Ignoring the associated financial-market problems, how would a reduction in wealth associated with a large decline in house prices affect the economy through the *IS/LM* model? Does this seem consistent with a large recession and historically low interest rates?