Consolidated Questions from Prof. Florian

A: Goods and Financial Markets (Ch. 2 & 3)

1. Explain the mechanics of the Goods Market, paying special attention to its components and the multiplier effect.
2. What happens in the Goods Market if the government decides to increase/decrease government consumption?
3. How does the Central Bank intervenes in the Money Market? What role do bonds, liquidity preferences, reserves, and the interbank market play?
4. What are the dynamics if the Central Bank conducts contractionary monetary policy?
5. Is there a limit to expansionary monetary policy?

B: IS-LM Model and the Extended Model (Ch. 4 & 5)

1. What is the mechanics of the Goods Market once we assume that Investment depends on the Interest Rate? How does this lead to the derivation of the IS curve?
2. How do IS and LM interact to determine the equilibrium in the IS-LM model? What are possible economic shocks?
3. Right before the election, the government increase its expenses in order to paint a positive picture of the economy. Knowing that this will lead to an unsustainable boom, the Central Bank counteracts by increasing interest rates. Discuss.
4. Explain the Fisher Effect. You might want to talk about the distribution of wealth between borrower and lender during inflationary/deflationary periods. What are the economic consequences during persistent deflation? Country A experiences an increase in its overall perception of risk due to a financial crisis in country B. Discuss the economic consequences for country A.