

BEEM120

University of Exeter
Business School

January 2023

MACROECONOMICS OF MONEY AND FINANCIAL MARKETS
Assignment Project Exam Help
Module Convenor: Dudley Cooke

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Duration: 1 hour 30 minutes +

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This is an **Open Book** exam

Additional materials needed: None

Answer all questions. Questions are equally weighted.

Question 1

Outline a two-period model of consumption based on intertemporal behaviour. Provide an interpretation for the consumption Euler equation and derive the consumption function. Explain why Ricardian Equivalence holds in your model.

Question 2

Suppose that a central bank promises to pursue a policy of zero inflation. In the context of the Barro-Gordon model, explain why such a promise is not credible. Derive the rate of inflation when a central bank acts under discretion and explain why it is possible to reduce inflation (on average) by appointing a conservative central banker.

Question 3

Consider the Mundell-Fleming model in which a country has a fully floating exchange rate system and there is perfect capital mobility. Separately explain the effects of monetary policy and fiscal policy on the macroeconomy.

End of paper