

Nanyang Technological University
School of Social Sciences

HE2002 Macroeconomics II AY23-24 SEMESTER 2

Tutorial 4

1. **Chapter 5, Q7. The fiscal-monetary policy mix in the aftermath of the Great Financial Crisis (an open-ended question)**

The Great Financial Crisis left many nations with slow GDP growth rates and high levels of public debt. While most nations pursued a monetary policy, some nations simply lowered income taxes through expansionary fiscal policy.

- (a) Illustrate the effect of such a policy mix on output.
- (b) Why do the policy mix differ for different nations in 2008?

2. **Chapter 5, Q8.**

What mix of monetary and fiscal policy is needed to meet the following objectives?

- (a) Increase Y while keeping i constant. Would investment (I) change?
- (b) Decrease a fiscal deficit while keeping Y constant. Why must i also change?

To answer the questions from Chapter 6, please preview the lecture slides to Slide 19 “The Lower Bound on r_t if $\pi^e < 0$ ” for the required information.

3. **Chapter 6, Q1.**

Using the information in this chapter, label each of the following statements true, false, or uncertain. Explain briefly.

- (a) The nominal interest rate is measured in terms of goods; the real interest rate is measured in terms of money.
- (b) As long as expected inflation remains roughly constant, the movements in the real interest rate are roughly equal to the movements in the nominal interest rate.
- (c) When expected inflation increases, the real rate of interest falls.
- (d) All bonds have equal risk of default and thus pay equal rates of interest.
- (e) The nominal policy interest rate is set by the central bank.

4. **Chapter 6, Q2.**

Assume that the interest rate, i , for France and Switzerland is 1.7%, and the expected rate of inflation, π^e , in France is 0.8% and for Switzerland it is 0.5%.

- (a) Compute the real interest rates for both countries using the exact formula.
- (b) Compute the real interest rates for both countries using the approximation formula.
- (c) Explain the difference between the real interest rates for France and Switzerland.