

# Exam practice questions for Macro II: Part 2

May 4, 2018

## Short questions

Answer the question and, when applicable, provide a short explanation, emphasizing intuition.

1. Explain the Diamond paradox.
2. Consider the DMP model. Is it true that Replacing Nash bargaining with any fixed wage  $w \in [b, y]$ , where  $b$  is the unemployment utility flow and  $y$  is the production flow from a match, resolves the Shimer puzzle?
3. Is it true that the Burdett-Mortensen model predicts that firm size is positively correlated with quit rate?
4. Is it true that precautionary savings cannot arise in a two-period consumption-savings problem where households have quadratic preferences?
5. Is it true that, in general, solving the Aiyagari model augmented with aggregate shocks exactly is impossible due to the assumption of rational expectations?