Paper 3

The paper should be about six pages long, double-spaced, NOT including graphs. If your paper is shorter than that, it probably does not have everything that I want. If it is much longer than that, it is more than I want. It should be structured as a *paper.* It must have an introductory paragraph that introduces the topic and previews what you are going to say about it. Each paragraph should start with a topic sentence that tells the reader what that paragraph is about.

You should make specific references to relevant things in the readings, and quote from the readings as appropriate. If you fail to refer to something in one of the readings that is relevant for the assigned topic, I will reduce your grade on the paper. Avoid excessive discussion of things unrelated to your assigned topic.

You don't need a title page. Put your name and the title of your paper at the top of the first page.

The title of your paper is "Low *r\** and monetary policy."

Economists believe that the long-run trend value of *r\** (or r-star) is lower now than it was in the past and is likely to remain low for the foreseeable future. Explain what economists believe to be the the causes of this development, the problem this development poses for monetary policy, and proposed solutions to that problem. In your paper, be sure to address the following points.

1) What do economists mean by *r\** (or r-star)?

2) What are possible reasons for the decline in the long-run trend value of *r\** and continued low *r\** in the future, according to economists?

3) What problem does a low long-run trend value of *r\** pose for monetary policy?

4) What solutions have been proposed to this problem? Be thorough. Discuss all the solutions mentioned in the readings.