

Homework Assignment 3

Total points: 60

Due date: 30/10/2018

- Use graphs and functional relationships to whatever extent possible.
- This is a relatively easy (if you have paid attention in class) but lengthy assignment. Try to construct your answers like we do in class, with step by step analysis and building of the models.
- If you do not inform me in advance about a reason, I will not accept late submissions no matter what.

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1. In Keynesian economics, explain in detail when fiscal and monetary policy is effectiveineffective. Show the effects based on the parameters like b and c in detail. Note that this is a long question, and covers most of the 9th set of slides. (25)
 2. Explain in detail the following:
 - (a) The strictly sticky wage model and how it leads to equilibrium in demand and supply. (10)
 - (b) Explain further how, when wages are not 100% sticky, the equilibrium changes. (10)
 - (c) Compare the Keynesian equilibrium to the classical model, with focus on aggregate supply. (5)
 3. Explain in detail the fundamental difference between how Keynes and Friedman constructed M^d . (10)
 - 4.