

Written Exam for the B.Sc in Economics 2010-II-R

Macro B

Final Exam

17 August 2010

(3 hour closed book exam)

Please note that the language used in your exam paper must correspond to the language of the title for which you registered during exam registration. I.e. if you registered for the English title of the course, you must write your exam paper in English. Likewise, if you registered for the Danish title of the course or if you registered for the English title which was followed by "eksamen på dansk" in brackets, you must write your exam paper in Danish.

If you are in doubt about which title you registered for, please see the print of your exam registration from the students's self-service system.

All questions of the three problems should be answered

1. Problem A

1. What is the yield curve? Discuss the relationship between the short term interest rate (it could be the overnight discount window, or the CIBOR) and the long term interest rate (this could be the 30 year effective rate on bonds).
2. Explain the difference between the union wage theory and the efficient wage theory. Why do these 2 approach to the labor market arrive at the same result and how does it affect our basic AS-AD model?
3. Explain the trade-off between output stability and inflation stability, in both fixed and flex exchange rate regime when facing demand & supply shock. Why is there a trade-off?

2. Problem B

In this problem the students are asked to show the long run effects of the following permanent shocks:

1. Suppose the foreign real interest rate permanently increases. Give a graphical illustration of the long run effects of this demand shock on the real exchange rate. Explain the effect.
2. Assume that the domestic government permanently increases public consumption. Illustrate and explain the long run effects of this policy change on the real exchange rate.
3. Suppose that domestic productivity permanently increases. Illustrate and explain the long run effects of this productivity shock on domestic output and on the real exchange rate.
4. Finally, explain and discuss the concept of long run neutrality of the exchange rate regime.

3. Problem C

This problem invites the students to discuss the merits of the optimum currency area theory.

1. Explain and discuss the nature of the microeconomic benefits from a fully fixed exchange rate/common currency and how these benefits depend on the degree of international economic integration. What difference does it make whether the exchange is fixed or whether national currencies are abandoned in favour of a common currency.
2. Explain and discuss the nature of the macroeconomic costs of a fully fixed exchange rate and how these costs depend on the degree of economic integration.
3. Many economists have argued that even though a fixed exchange rate/common currency among a group of countries may not seem optimal ex ante, it may nevertheless turn out to be optimal ex post. Explain and discuss this argument.
4. Discuss the relevance of optimal currency area theory for the monetary integration in Europe.