

The New Normative Macroeconomics

ECON 3133

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Problems

1. Given the discussion of optimal policy in this chapter, comment on the validity of the criticism that the Fed was too tight in 1979 and 1990.
2. Compare a policy of fixing the money stock to a policy of fixing the interest rate. Prepare a brief argument in favor of each type of targeting; list advantages and disadvantages.
3. Using the IS-LM method, show what the Fed must do to the money supply to reduce output by a certain percentage when there is a price shock. Could the same actions be undertaken by fiscal policy? Why might a mix of monetary and fiscal policies be used to reduce output after a price shock?