INSTRUCTIONS:

1. Answer ONLY the specified number of questions from the options provided in each section. Do not answer more than the required number of questions. Each section takes one hour.

2. Your answers must be on the paper provided. No more than one answer per page. Do not answer two questions on the same sheet of paper.

3. If you use more than one sheet of paper for a question, write "Page 1 of 2" and "Page 2 of 2."

4. Write ONLY on one side of each sheet. Use only pen. Answers in pencil will be disqualified.

5. Write ------ **END** ----- at the end of each answer.

6. Write your exam identification number in the upper right-hand corner of each sheet of paper.

7. Write the question number in the upper right-hand corner of each sheet of paper.

Section 2: Macroeconomics, Monetary Theory, and Econometrics—Answer One Question.

2A. (Econ 202) Answer all of the following parts completely. Be specific.

a) Draw a static aggregate demand-aggregate supply diagram identifying both axes and all curves.

b) What explains the slope of the aggregate demand curve?

c) Identify what can cause shifts in the aggregate demand curve: what factor do Keynesians emphasize? What factor do Monetarists emphasize?

d) How would traditional Keynesians draw a (single) aggregate supply curve? (Again, you may describe it or draw it on a separate graph.) Explain why.

e) How would traditional Monetarists economists draw the supply curve(s)? Explain why.

f) Relate your answers above to the shape of the short-rate aggregate supply curve and the role of expectations in shifting that curve.

g) Show on a diagram how a negative shock to aggregate demand would affect the curves in both the short-run and long run.

h) Use the aggregate demand-aggregate supply model to portray the monetarist view of stagflation

i) What theory of expectations does real business cycle theory depend upon?

DEPARTMENT OF ECONOMICS   DEC 3, 2021
SAN JOSE STATE UNIVERSITY   6:00 P.M. TO 9:30 P.M.
MASTER'S COMPREHENSIVE EXAMINATION   PROCTOR: LOMBARDI & RIETZ

2B. (Econ 203a)

Consider the following linear and log-log models for the demand for cigarettes:

Variable Name	Definition
price	Price of a pack of cigarettes
lprice	Log value for the price of a pack of cigarettes
packs	Thousands of packs of cigarettes sold
lquant	Log value for packs

```
OLS Regression
=================================================
                      Dependent variable:
                 ----------------------------
                    packs          lquant
                     (1)            (2)
-------------------------------------------------
price            -0.62214***
                  (0.11513)

lprice                          -1.21306***
                                 (0.21645)

Constant         210.33420***   10.33892***
                  (22.30273)     (1.03529)

-------------------------------------------------
Observations         48             48
R2                0.39581        0.40575
Adjusted R2       0.38268        0.39283
Residual Std. Error  18.68556    0.18962
F Statistic       30.13535***    31.40859***
=================================================
Note:             *p<0.1; **p<0.05; ***p<0.01
```

    a. For the linear functional form (i.e., column 1), interpret the impact of a \$2 increase in the price on cigarette consumption—be specific about the units.
    b. For the log-log model, interpret the impact of a 2% decrease in the price on cigarette consumption.
    c. Suppose the above regressions have heteroscedastic errors. Define heteroscedasticity and name the test we would use to determine this.
    d. Under specific conditions, OLS is BLUE. What does the acronym BLUE stand for, and what does it tell us about OLS as an estimator?
    e. Based on the conditions discussed in part c, have we met the requirements for OLS to be BLUE?

2C. (Econ 235)

Draw a Bailey (or monetary Laffer) curve, clearly labeling both axes and the maximum rate of real seigniorage that a government can generate *in the long-run*. What are the diagram's simplifying assumptions? Now *provide a detailed explanation in words* (**a**) of the shape of the curve and (**b**) why the point you indicated is indeed the maximum. Your explanation should involve the demand for money and real cash balances. Then illustrate on the graph how hyperinflation might get started, again *explaining in words* the process you are depicting. Your verbal explanations must be clear, complete, and precise.