DEPARTMENT OF ECONOMICS
SAN JOSE STATE UNIVERSITY
MASTER'S COMPREHENSIVE EXAMINATION

MAY 7, 2021
6:00 P.M. TO 9:30 P.M.
PROCTOR: PROCTORU

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 235) Answer all of the following parts completely. Be specific.

(a) Does the Federal Reserve (Fed) actually control interest rates? If so, to what extent?
(b) What is the short-run impact of an expansionary monetary policy on interest rates? What is this effect called, and why does it occur? Depict this short-run impact on a diagram of the loanable-funds market. Assume you are starting with a constant money stock and that the Fed engages in a one-shot increase in the money stock.
(c) After the new money circulates throughout the economy, what happens to interest rates? What is this effect called, and why does it occur? Depict this impact on your diagram of the loanable-funds market.
(d) Now assume that the Fed continues expanding the money stock at a constant rate. What is the impact of nominal interest rates? What is the impact on real interest rates? What is this effect called, and why does it occur? (You do not need to graph it.)
(e) Why does the difference between short-term and long-term effects of monetary policy that you have described in parts (b), (c,) and (d) create problems for a monetary policy that targets interest rates?
(f) Give the equation for the Taylor Rule. Clearly identify all variables and coefficients in the equation. What macroeconomic variables does the Taylor Rule try to stabilize? How does the Taylor Rule deal with the problems you described in part (e)?

2B. (Econ 203)

Ordinary Least Squares (OLS) is BLUE under specific conditions.

- What does the acronym BLUE stand for?
- Please explain in detail what BLUE tells us about OLS as an estimator.
- Name two of the conditions required for OLS to be BLUE.

Interpret β_1 in the two following equations:

$Y_i = \beta_0 + \beta_1 X_i + u_i$

$\ln(Y_i) = \beta_0 + \beta_1 \ln(X_i) + u_i$

2C. (Econ 202) Answer either (a) or (b) but not both:

(a) Compare fiscal policy with monetary policy. What are they, how are they similar, and how do they differ? Your answer should consider the role of government deficits (i.e., the national debt) in each and at least touch upon the concepts of "monetizing the debt," "velocity," the "Keynesian multipliers," "crowding out," and "Ricardian equivalence." How does your answer relate to aggregate demand and loanable funds market? What is a liquidity trap?

(b) Discuss and graph the Solow growth model. What are its underlying assumptions and its conclusions? How consistent with empirical reality is the model, and what is meant by the term "convergence." How would Austrian capital theory critique the Solow model? Then briefly explain endogenous growth theories. What variable do they make endogenous and how do they relate to the Solow model?

(over)