

Seminar in macroeconomics – Monetary and fiscal policy, 13th week

1. ! What are the inside lag and the outside lag? Which has the longer inside lag—monetary or fiscal policy? Which has the longer outside lag? Why?
2. ! Why would more accurate economic forecasting make it easier for policymakers to stabilize the economy? Describe two ways economists try to forecast developments in the economy.
3. ! Describe the Lucas critique and the term „time inconsistency“ of economic policy.
4. ☺ If the central bank decides to follow monetary policy using a rule, should it be allowed to change this rule? If so, under what circumstances?
5. ☺ Describe the pros and cons of inflation targeting as a monetary policy regime.
6. ! What will the impact of tax cuts financed by an increase in public debt be on public saving, private saving, national saving, investment and interest rate assuming
 - a) the traditional view of government debt (*use short-run and long-run models of a closed and small open economy, consider the impact on other relevant variables*),
 - b) the Ricardian view of government debt.
7. ☺ What are the advantages and disadvantages of progressive income taxation?
8. ☺ A developing country has a large part of its debt denominated in foreign currency. How will this affect the incentives for governments to resort to inflationary financing of the debt? How will the devaluation of the domestic currency affect the value of debt?
9. ☺ Evaluate the following statements:
 - a) *"We do not need to worry about the level of public debt because it may never be repaid."*
 - b) *"The amount of public debt is irrelevant because we owe it to ourselves."*