

Assignment for Week Fifteen Recitations

1. **Journal Assignment 5**
Find and reproduce a news article that discusses the current state of monetary policy. Include the article in your journal and write a 150 word analysis explaining whether you believe the Fed is more likely to raise or lower interest rates in the next three months. Explain your reasoning.

2. **Data Problem: Estimate the real rate of interest for the coming year.**
The purpose of this problem is to estimate the real rate of interest between now and one year from now.
 - a. Recall the definition of the real rate of interest. What are its two components?

 - b. Explain why it makes sense for the inflation component of the real rate of interest to be forward looking rather than backward looking. What do backward looking and forward looking mean in this context?

 - c. Go online and find data that allow you to estimate the two components of the real rate of interest. Write a paragraph in your journal explaining what data you found, how you estimated each component, and what your estimate of the real rate is for the coming year.

 - d. Do you believe the real rate in the coming year will be unusually high, about normal, or unusually low? What incentives will the real rate create over the coming year (in comparison with a normal year)?

3. **Practice using the macro model that was set out in Tuesday's (December 1) lecture. For each shock, predict the effect on the economy of the shock alone, the appropriate monetary policy (lowering or raising the interest rate) and the combined effect of the shock and of the appropriate policy.**
 - a. A shock that shifts Aggregate Demand toward higher output. Such shocks include an increase in consumer confidence, an increase in government spending, a decrease in taxes, or an increase in demand for US exports.

 - b. A shock that shifts Aggregate Demand toward lower output. Such shocks include the opposites of the shocks in part a. and a decrease in the demand for new houses.

 - c. A shock that shifts Potential Output toward lower output. Such shocks include an increase in imported energy prices and a labor stoppage in an important industry.

 - d. A shock that shifts Potential Output toward higher output. Such shocks include the opposites of the shocks in part c. and the creation of a new technology such as computers and the internet.