

### Week 16 Recitation Assignment and Exercise

#### Objectives

This is the final week of recitations for this course. The purpose of recitations this week is threefold:

- a. Students review their understanding of macroeconomic models and monetary policy
- b. Students prepare for the final examination.
- c. Students receive their journals and journal grades.

#### Assignments

1. Students are expected to have read “U.S. Monetary Policy: An Introduction,” prepared by the Federal Reserve Bank of San Francisco and available on the course web page. Please answer the following questions about the reading before recitation.
  - a. Why does it make sense that low and stable inflation is a goal of monetary policy?
  - b. Should the U.S. add stabilizing the stock market to the list of goals for monetary policy?
  - c. How does the Fed lower the Federal Funds rate when it decides to do so? (Here the emphasis should be on a demand and supply analysis of Federal Funds).
  - d. Why does a change in the Federal Funds rate effect sectors of the economy beyond the banking sector? Put another way, why does a change in the Federal Funds rate change the behavior of agents who do not participate in the Federal Funds market.
  
2. Students should bring their questions about the working of our macroeconomics model with them to recitation. Your TA’s have been asked to help you by showing how the model works for the economic shocks a-d below. For each shock, students should be able to predict the effect on the economy and describe appropriate monetary policy and fiscal policy to remedy the shock.
  - 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.
  
3. Answer the practice questions for the macroeconomics portion of our course that are posted on the web page. Be prepared to ask for clarifications about these questions at your recitation. As always, I have instructed your TA’s not to distribute an answer key for the practice questions.