

If you choose a Take Home Final answer two questions from each section. If you choose to write a final paper, please send the topic for approval.

Section I Answer At Least Two Questions from the following:

1. What is the relationship between the Covered Interest Rate Parity Theorem, the Fisher Relation between real and nominal interest rates, and Purchasing Power Parity?
2. Discuss the view that Keynes's *General Theory* is compatible with Rational Expectations.
3. Compare and contrast Fisher's theory of time preference with Keynes's theory of liquidity preference.
4. Modern General Equilibrium is a theory of intertemporal prices. Keynes tried to present a theory in which expectations of the future had an impact on present prices. Is there any difference between these two approaches?
5. What is the meaning of the statement that the liquidity premium is just the marginal efficiency of money?
6. Is Minsky's theory of Financial Instability based more on Keynes or on Fisher's ideas of Debt deflation?

Section II Answer At Least Two Questions from the following:

7. How would you calculate the expected inflation rate in the US economy? Give your estimate.
8. What is the one-year interest rate expected to prevail in one year? What is your prediction of the one-year rate in one year? If they are different explain why.
9. Consult the *Wall Street Journal* (or check <http://stockcharts.com/charts/YieldCurve.html>) for the current US yield curve. How would you explain its shape? What does it tell you about the future of the US economy?
10. How would you estimate the current real interest rate in the US economy? Give your estimate.
11. Ben Bernanke has asked you to advise him on changes in monetary policy to keep the US at its potential growth rate. How would your recommendations differ if you were basing them on Keynes or on Fisher?

NB Please state assumptions and sources where necessary.
Exams should be sent to kregel-ny@un.org by **30th April**.