

# Supervision 7

## Monetary Policy

**Question 1** An inflationary bias is always present in a central bank policy decisions and policies to alleviate such a problem are usually ineffective.

**Question 2** Tripos exam 2004 question 5.

**Question 3** Tripos exam 2006 question 10.

## Fiscal Policy

**Question 2** Tripos exam 2005, question 5.

**Question 3** Some economists have suggested that politicians might use macro-economic policy tools to increase their chances of being (re-) elected. [Tripos 2003]

(a) Discuss the implications for output and inflation when politicians are opportunistic and voters have adaptive expectations.

(b) How would your answer to part (a) change if politicians were partisan and represented either left-wing or conservative voters and the voters had rational expectations?

(c) Discuss the benefits and costs of various policies to limit the ability of politicians to behave in the ways analysed above.

### Main Readings – Fiscal Policy

- Alesina, Roubini and Cohen (1997), Political Cycles and the Macroeconomy, chapters 2-4.
- Burda and Wyplosz (2002), Macroeconomics : A European Text, chapters 15-16.
- Mankiw & Taylor (2008), Macroeconomics, chapter 14 and 15.

## Main Readings – Monetary Policy

- Bofinger (2001), Monetary Policy: Goals, Institutions, Strategies and Instruments, chapters 6-7.
- Mankiw & Taylor (2008), Macroeconomics, chapter 16.
- Dornbusch, Fischer and Startz (2001), Macroeconomics, chapters 8, 20.
- Mishkin (2004), The Economics of Money, Banking and Financial Markets, chapters 24-25 (review), 27-28.
- Blinder (1998), Central Banking in Theory and Practice.
- Drazen, Allan , 2000, Political Economy in Macroeconomics Princeton: Princeton University Press. (Ch. 4 Section 4) (Ch. 5 Section 4) (Ch. 6 Sections 1-5).