Essay questions (1000 words max)

1. In contrast to the US, the UK and other advanced countries, the global crisis and great recession created a sovereign debt crisis in the euro-area. This caused large and variable interest rate differentials on public debt issued by different member countries and a large sovereign default (Greece). [Tripos 2016]
   
   (a) Explain how a sovereign debt crisis can be driven by debt and/or self-fulfilling market expectations of a default.
   
   (b) Which features of the Eurozone as an incomplete monetary union may have contributed to the sovereign debt crisis?

2. The US has long been earning a higher return on its foreign assets than it pays on its foreign liabilities - according to conservative estimates, the difference is about 1.5 percentage points for the period post 1973. What can explain this ‘exorbitant privilege’ of the US? [Tripos 2015]

3. In the Real Business Cycle model random fluctuations in productivity induce persistent movements (through time) in aggregate output, investment and consumption. Discuss the two sources of persistence in output fluctuations present in this model. Make sure: [Tripos 2015]
   
   (i) you clearly state what assumptions - on model primitives like household preferences and/or production technology - are necessary for each source of persistence to be present, and
   
   (ii) explain the mechanism through which each assumption delivers persistent movements in aggregate output.

4. [cf Tripos 2014]
   
   (a) What is “the New Keynesian Phillips curve” approach?
   
   (b) What are the advantages and disadvantages of this approach?

5. In a provocative article, “Why Innovation Won’t Save Us”, in the Wall Street Journal of December 22, 2012, Robert Gordon argues that “For more than a century, the U.S. economy grew robustly thanks to big inventions; those days are gone.” He credits the growth of the past century from a remarkable set of inventions between 1875 and 1900. These inventions made incredible changes to our world resulting in enormous economic benefits. Robert Gordon, however, predicts that it will be nearly impossible for future innovations to have the same impact on the world as electricity, running water or the computer. He does not forecast an end to innovation, just a decline in the usefulness of future inventions in comparison with the great inventions of the past. Discuss Gordon’s ideas using the second generation of endogenous growth model. [Tripos 2013]
6. Data has been available since the 18th century showing that the debt-income ratio in the UK and the USA has risen in times of war and fallen thereafter. [cf Tripos 2012]

   (a) What might explain this?

   (b) Since the 1970s many industrial countries have seen an increase in debt-income ratios, but there has not been a corresponding decline since then. Outline a theory that helps to explain this.


8. Central banks face inescapable forms of uncertainty when conducting monetary policy. Outline them and explain how they affect the way in which policy is implemented. [Tripos 2011]

9. Consider the Solow growth model with non-renewable resources as an input in production. Can technological progress steer the economy out of any resource constraint, so that the long run growth in per capita income is positive? In other words, can economic activity increase forever? Explain. [Tripos 2010]

10. What are the short and long run growth effects on an economy of raising the fraction of inputs devoted to domestic R&D? Why and how could other economies be affected by such a policy? [Tripos 2008]
Recommended strategy for essay questions:

1. Read the question carefully, take a few minutes to think of
   
   (a) useful theoretical concepts/models
   (b) relevant empirical evidence/examples

   and organize your arguments into a coherent structure. For a multi-part question, explicitly follow the format of the question in your answer.

2. Develop the structure of your essay by working out each argument and showing its relevance to the question.
   Write legibly.

3. Finally, review your arguments and formulate a definite conclusion that directly addresses the question.