

Credit and Debt-Deflation: Practice Problems

1. True or False? The effects of positive demand shocks are simply the opposite of negative demand shocks.
2. Using the model, why do Central Banks typically not choose $\bar{\pi} = 0$?
3. True or False? Supply shocks can also lead to financial crises in the model.
4. Why do most Central Banks view deflation as a greater evil than inflation?
5. Using data on credit spreads, discuss the benefits of adding credit spreads to the New Keynesian Model in order to explain macroeconomic conditions i) in March 2005, and ii) in October 2008.