

Theoretical Models: Practice Problems

1. In order to make forecasts, the Federal Reserve relies on a macroeconomic model that includes about 1800 equations. The models taught in various macroeconomic classes, however, usually consist of no more than 5 equations. Why do you think that this is the case, and do you believe that either the Fed or academia should adopt the other's approach?
2. Which is better? A model based on intuitively appealing assumptions that makes predictions that do not match the data, or a model that has good empirical fit but relies on dubious assumptions.
3. True or False? All theoretical models are misspecified.