

Notes on Exam2:

Q1: Most students earned full credit. Some creative answers.

Q2: Only mentioning the short run (AD shifting left) earned a maximum of 5 or 6 points depending on the quality. Full credit entailed discussing the impact of higher taxes on debts/deficits and how these might impact long-term performance (e.g. the effect in interest rates, the impact on the risk of a crisis). Some students who mentioned that it would reduce debt but who did not explain the effects of doing so earned 8/10.

Discussing the LRAS but not deficits or debt, allowed for scores up to 7/10.

Most students scored between 4-8 points in this question

Q3: Most students earned full credit. Some 1-2 point deductions for mistaking housing as consumption or tuition as investment. Bigger, 3-4 point deductions for including intermediate goods as part of GDP. No student counted cocaine in GDP.

Q4. Most students earned full credit. Answers that were based on incorrect definitions of GDP earned full credit if otherwise correct.

Major deduction, usually 7 points, for calculating nominal GDP.

Q5: Like Q4, credit, answers that were based on incorrect definitions of GDP earned full credit if otherwise correct.

Some students used the formula $P = \text{realGDP}/\text{nomGDP}$. This received full credit if done correctly (although it does reverse the base years). 2 point deduction for randomly multiplying the final inflation rate by 100.

Q6: Most students earned full credit, usually mentioning oil prices and either government spending or loose monetary policy. A few students earned 5/10 for listing the same factor twice, usually oil prices. A few students lost 2-3 points for vague statements about supply chain disruptions which is more applicable to 2022 than the 1970s.

Q7. Most students earned 10/10. Some lost major points for mostly restating the definition of a downward sloping AD curve (as inflation rises, output falls in goods and service markets) without explaining "why." A few students used the wealth, exchange rates, and interest rate effects (the book's treatment) instead of the model developed in class. (I noted in class that we were using an alternate approach). These usually earned 5/10 depending on their quality.

Q8. Most students earned full credit. Several 5/10 scores from students who shifted the labor demand curve instead of moving along it.

Q9. Most students earned full credit by correctly noting that the effect on output is ambiguous while inflation rises. Lots of 5/10 scores other for shifting only one curve or mistaking the impact on output.

Q10: Any thoughtful attempt to relate crypto to the 3 criteria of money earned full credit. This includes several arguments that it should be counted as money.

Q11. Hardest question on the exam. Full credit required identifying that this policy is forward guidance and that it works by lowering long-term interest rates. The most common answers only shifted AD (like a drop in current interest rates) and earned 4/10.

Q12. As expected, most students earned full credit. A few students earned 5/10 for only shifting AS or only shifting AD.

Bknus. The average was around 5-6 points. Some students earned ten points for correctly describing how AS adjusts through nominal wage adjustment. Some students earned 2-5 points for discussing the LRAS but not tying it to wages. Students who showed long-term adjustment through AD usually earned no bonus points,