

Answer Key to S11 Second Midterm

- 1 a
- 2 e
- 3 e
- 4 b
- 5 a
- 6 e
- 7 c
- 8 d
- 9 c
- 10 a
- 11 c (hard – see notes on multiplier)
- 12 a
- 13 e
- 14 b (hard – see notes on multiplier)
- 15 d
- 16 b
- 17 e
- 18 d
- 19 d
- 20 b
- 21 b (hard, but shouldn't be! Bond purchases drive prices up and yields down)
- 22 b
- 23 a
- 24 e (hard)
- 25 c (hardish)
- 26 d (hard)
- 27 c
- 28 c
- 29 c
- 30 d
- 31 c
- 32 b
- 33 d
- 34 c
- 35 e (Super hard, but just requires a little reasoning and algebra: In a steady state, inflation must be fully anticipated, and y_{gap} must be 0, so the nominal rate i is $r_0 + \pi$ by the Fisher Equation, and also is $1.0 + 1.5 \pi + 0.5 (0)$ by the Taylor Rule. If r_0 is 4% as given, then solving for π gives 6%. The same formula was tabulated in the readings and lecture as the relation between the Fed's inflation target and estimated equilibrium real rate. As noted there, the same relationship holds between the true equilibrium real rate and the equilibrium inflation rate. This concept is very important, since it shows that even though a Taylor-like rule with strong inflation feedback can stabilize inflation at some rate, there is still considerable uncertainty what that inflation rate will be)

36 c

37 c (Super easy – 100% right!)

38 c

39 e (100% right!)

40 (22) e

S11 Final questions pertinent to material for F11 midterm 2:

10. b

11. b

12. c

13. a

14. c

15. b

16. a

17. e

18. c

19. d

20. d Still super hard – see 35 above.