

ECO 407 – L0101

Competing Views in Macroeconomic Theory and Policy

Term Test

Instructions:

- The total time for this test is 1 hour and 45 minutes.
 - Answer TWO of the following THREE questions in essay form.
 - Each Question is worth one-half of the total grade.
 - No aids allowed.
 - Answer each question in a separate booklet.
 - Please write legibly. If I can't read your handwriting, I can't award you any marks!
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1. Critically comment on the following statement: "Neoliberals see the state as being based on the pursuit of individual self-interest through *political* as opposed to *market* means. The state is thus viewed as a source of rent-seeking and corruption. The logical conclusion, therefore, is that the state must be confined to a minimal level of activity to let society be shaped by the discipline of the market."

 2. Orthodox economists believe that "inflation is always and everywhere a monetarist phenomenon" and thus, in their view, central banks should reduce the rate of growth of the money supply to curb inflation. Post-Keynesians do not believe that inflation is demand-determined and thus, in their view, contractionary monetary policy cannot directly reduce inflation. What is your position in this debate? Is inflation demand-determined or cost-determined? Critically review these opposite positions.

 3. Critically comment on the following statement: "All of today's developed countries have become rich through free-market policies, especially through free trade with the rest of the world. As David Ricardo demonstrated almost two centuries ago, specialization and trade based on the principle of comparative advantages makes all countries better off. Therefore, developing countries should fully embrace free-trade policies in order to close the income-gap with developed countries."