

UNIVERSITY OF TORONTO
Faculty of Arts and Science

December Examinations 2015

ECO 407F

Duration: 2 hours

No Aids Allowed

Instructions:

- Answer TWO of the THREE questions in essay form.
- Each Question is worth one-half of the total grade.
- 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 two statements:
 - 1.1. "Some economists argue that investment is determined by savings. At the same time, they consider savings to be an increasing function of the rate of interest. Therefore, it must be concluded that an increase in the rate of interest will increase investment."
 - 1.2. "Orthodox economists consider that an economy's output is a decreasing function of the real wage rate. To the contrary, heterodox economists argue that an increase in real wages might result into an increase in overall aggregate output."
 2. Orthodox economists favour independent central banks. They argue that elected officials face political incentives to implement monetary policies that, while promoting short-run gains in output and employment, pose long-run inflationary risks. In their view, a central bank with independence in the conduct of monetary policy can more credibly commit to promoting price stability and maximum employment in the long run. Do you agree with this position? Should central banks be independent? Critically review the position of orthodox economists on this subject.
 3. Given the strong correlation between the value of the Canadian dollar and the price of oil, it is argued that Canada should adopt a fixed-exchange rate regime to avoid the so-called Dutch disease. Some supporters of this view go even further and suggest that Canada should adopt the U.S. dollar as its currency. What is your position in this argument? Should Canada fix the exchange rate? Should Canada adopt the U.S. dollar? Critically review the pros and cons of these suggestions.