

LAST (Family) NAME: _____

FIRST (Given) NAME: _____

STUDENT NUMBER: _____

**UNIVERSITY OF TORONTO
Faculty of Arts & Science**

DECEMBER 2018 EXAMINATIONS

ECO407H1F

**Duration: 2 hours
Aids Allowed: None**

Exam Reminders:

- Fill out your name and student number on the top of this page.
- Do not begin writing the actual exam until the announcements have ended and the Exam Facilitator has started the exam.
- As a student, you help create a fair and inclusive writing environment. If you possess an unauthorized aid during an exam, you may be charged with an academic offence.
- Turn off and place all cell phones, smart watches, electronic devices, and unauthorized study materials in your bag under your desk. If it is left in your pocket, it may be an academic offence.
- When you are done your exam, raise your hand for someone to come and collect your exam. Do not collect your bag and jacket before your exam is handed in.
- If you are feeling ill and unable to finish your exam, please bring it to the attention of an Exam Facilitator so it can be recorded before leaving the exam hall.
- In the event of a fire alarm, do not check your cell phone when escorted outside.

Special Instructions:

- Answer the following SIX questions.
- All questions are of equal weight.
- Please write legibly. If I can't read your handwriting, I can't award you any marks!
- Manage your time properly!

Students must hand in all examination materials at the end

Critically comment on the following SIX statements:

1. The Task Force on Competitiveness, Productivity and Economic Progress concluded that Ontario is settling into a troubling era of stagnant growth that could be alleviated if businesses stop sitting on 'dead money' and ramp up investments.
2. 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.
3. Adjusted for inflation, the price of oil increased from about \$30 a barrel in 2002 to about \$100 a barrel in 2008 and (except for 2009-10) remained around that level until mid-2014. Being Canada an oil exporter, some observers concluded that this dramatic increase in the price of oil was 'unambiguously good' for Canada.
4. Capital inflows increase the pool of savings available for investment. Therefore, it appears that calls for capital account regulations are not justified.
5. Fixated on inflation targeting in a world without inflation, central banks have lost their way. With benchmark interest rates stuck at the dreaded zero bound, monetary policy has been transformed from an agent of price stability into an engine of financial instability.
6. Even in normal times, the financial sector generally prefers higher interest rates and lower employment than the vast majority of citizens would choose. Most people want the economy to be closer to full employment, and appreciate rising wages. A central bank that is 'independent' of the public's needs and wants, and caters primarily to those of the financial sector, is therefore going to cause a lot of needless suffering.