

UNIVERSITY OF TORONTO  
Faculty of Arts and Science

June Examinations 2016

ECO 407F

Duration: 2 hours

No Aids Allowed

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**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 statement: "Activist fiscal policy of the type promoted by supporters of Employment of Last Resort (ELR) programs is highly destabilizing since it interferes directly with the operation of labour markets. Indeed, by altering wages and employment levels, these policies undermine the efficiency of free markets and generate inflationary pressures. In addition, ELR programs impose a fiscal cost to society since these programs must be financed through higher taxes."
  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. Critically comment on the following statement: "Fiscal austerity has emerged from the debate on the euro crisis as the main strategy to restore growth and employment. According to this view, reducing public debt lowers interest rates and injects confidence in the private sector, freeing the basic instincts to invest and consume."