

ECO 407 – L0101

Competing Views in Macroeconomic Theory and Policy

Term Test

Instructions:

- The total time for this test is 1 hour. **Manage your time properly!**
 - Answer any **three** of the four questions below. If you answer all four questions, only the first three will be graded.
 - Each Question is worth one-third of the total grade.
 - No aids allowed.
 - **Please write legibly.** If I can't read your handwriting, I can't award you any marks!
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Critically comment on three of the following four statements:

1. Individual banks are not constrained in making loans in the short run, as they can always borrow needed reserves from other banks. If they do so that will put upward pressure on the overnight interest rate, and the Bank of Canada will thus supply the needed reserves to maintain the target for the overnight rate.
2. 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.
3. The government runs a balanced budget at the initial equilibrium income. Now it increases the income tax-rate on the rich and reduces the income tax-rate on the middle class while still maintaining total taxes unchanged at the initial equilibrium income. Therefore, equilibrium income and the government budget surplus will both remain unchanged.
4. In Canada and many other developed countries, the risk is not of higher wages rising unemployment; it is rather of stagnating wages causing household demand to remain depressed or grow only sluggishly, thereby deterring businesses from investing.