UNIVERSITY OF TORONTO Faculty of Arts and Science

June 2019 Examination

ECO407H1S

Duration: 2 hours

Aids Allowed: None

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SURNAME (LAST NAME):											/	<i>'</i>		
GIVEN NAME (FIRST NAME):									/	/				
UTORID (e.g., LIHAO118):							,							

Exam Reminders:

- Write your name and identifying information above.
- 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:

- Critically comment on the following **SIX** statements. Your comments must include a reference to competing theoretical and policy positions on each issue. All questions are of equal weight.
- Write your answers clearly and concisely in the two pages provided immediately after each question. Your entire answer must fit in the designated space. No extra space/pages are possible and you cannot use blank space for other questions.
- It is best to write in PENCIL and use an ERASER as needed. This way you can make sure to fit your final
 answer in the appropriate space. Please write legibly. If I can't read your handwriting, I can't award you any
 marks!

1.	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.

In periods of economic boom, it is argued that unrestricted cross-border capital movements contribute to exchange rate appreciation, current account deficits, and/or excessive accumulation of foreign exchange reserves. Therefore, it appears that capital account regulations might be somehow justified.

3.	Inflation is not due to too much money being created. Therefore, money is not the real problem. The real problem is whether there are enough resources in existence to support all the purchases the extra cash will demand.

4.	The argument for an independent central bank is basically an elitist argument. It really boils down to the idea that monetary policy is too important for the 'uneducated' masses to have an influence over it.

5.	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, thereby deterring businesses from investing.

When the private sector fails to provide full employment, the government could become the employ of last resort and provide jobs to anyone who wants or needs one. Spending on such a program — financed through the 'printing' of money — would come to an end when the economy reaches full
employment.

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