

Comments on exam of candidate 10102 SØK2009 fall 2018

This is a very good exam, and the candidate demonstrates solid understanding of the relevant topics. The exam is given the grade A.

Question 1

- a) The candidate provides very good descriptions of the combined model for the foreign exchange market and the money market. The relevant equations and graphical illustrations are presented and explained, including the analytical solution for the equilibrium exchange rate. The economic intuition behind the relevant relationships are discussed.
- b) Short-run and long-run effects of a permanent increase in the domestic money supply are illustrated graphically, and the economic intuition behind the effects is explained. In particular, the candidate discusses the concept of exchange rate overshooting, and presents the time paths of relevant variables. It should be noted that the suggested time path for the interest rate is not correct (the interest rate decreases initially, and then increases back to its initial level).

Question 2

- a) The candidate presents a standard aggregate demand – aggregate supply model to discuss asymmetric shocks, and provides the relevant graphical illustration.
- b) Good discussion of automatic adjustment mechanisms, including wage flexibility and labor mobility. Challenges related to the adjustment mechanisms are mentioned briefly, but could be discussed more (strong trade unions and language/cultural barriers for wage flexibility and labor mobility, respectively).
- c) Solid discussion of potential macroeconomic policy responses (monetary and fiscal) to asymmetric shocks in a monetary union. Limitations of fiscal policies due to government debt are also mentioned. The candidate provides a very good analysis of policies outside a union, including the effectiveness of these policies.

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