Macroeconomics Field Exam

August 2019

Part I (Based on Econ 236A by Romer and Romer): **80 points = 80 minutes**

1. **(40 points)** Various methods have been suggested for identifying monetary policy shocks: VAR residuals, narrative evidence, deviations from a Taylor rule estimated using Federal Reserve forecasts, and using high-frequency federal funds rate futures data.

Choose three of these methods and, for each of them, discuss:

- a. What the approach is.
- b. The strengths and weaknesses of the approach.
- c. The types of questions the method is most appropriate for investigating.
- 2. **(40 points)** Consider an increase in government purchases, not accompanied by a change in taxes.
- a. What do various models (old Keynesian, neoclassical, new Keynesian) suggest about the impact of such an increase in government purchases on real output?
- b. Discuss and critically evaluate two studies, one using aggregate data and one using cross-section data, that attempt to estimate the impact of an increase in government purchases.
- c. What are some of the important considerations in using the cross-section evidence to estimate the aggregate impact of fiscal policy?

Part II (Based on Econ 236B by Nakamura): 80 points = 80 minutes

- 1. **(20 points)** Describe the current state of the empirical evidence on the slope of the Phillips curve. Be sure to include the following elements.
 - a. Define the slope of the Phillips curve.
 - b. What empirical challenges arise in estimating it, and what measurement approaches have been used?
 - c. What has the literature concluded
- 2. **(20 points)** Describe Kaplan and Violante's interpretation of the empirical facts of Parker et al. regarding individual responses to tax rebates.
 - a. What is the role of incomplete markets in their explanation?
 - b. Provide an alternative explanation of these facts that does not rely on incomplete markets.
- 3. **(15 points)** Explain (using equations) what the consumption Euler equation implies about housesholds' responses to far future changes in interest rates.
- 4. **(25 points)** Describe the evolution of the labor share in the US and other countries over the past century. Describe at least two different explanations that have been proposed for these developments. For each explanation, what empirical evidence is consistent with the explanation and what evidence goes against it?