Below is a sample list of questions that may be asked on the exam. Usually answering questions requires constructing a sound economic argument, i.e. not only answering what would likely happen, but **why** do you think so. You may supplement your answers with graphs. It is not necessary to provide mathematical derivations.

1. Basing on the type of two-period consumer optimization problems we have considered, describe and justify the likely effects of the following changes on agents' first and second period consumption, as well as savings between period one and two:
    a. Increase in first period income
    b. Decrease in second period income (which is known / expected in advance)
    c. Decrease in the real interest rate

2. Solow model predicts that certain variables impact the level (and growth rate) of income per capita. Policies can potentially influence those variables, which are treated by the Solow model as given. Using the Solow model predict the effects of the following policies on level and growth path of income per capita:
    a. Children benefits financed via income taxation
    b. Tax incentives designed to increase the savings for retirement
    c. Tax breaks for firms engaging in R&D

3. A country's government plans to increase the revenue from taxation. Basing on the standard Ramsey model discuss the likely effects of changes in the following taxes on output, consumption and capital per capita:
    a. Increase in consumption tax
    b. Increase in asset income tax
    c. Increase in labor income tax

4. In the basic Real Business Cycles model an increase in government consumption decreases welfare. First, for any given level of GDP a smaller fraction of it goes to private consumption. Second, for any given level of consumption more time has to be spent working, creating higher labor disutility. Most people tend to think though that higher government expenditures, especially during recessions, are beneficial for the citizens, as they help in lowering the unemployment rate. Can you explain the difference between those two standpoints? What is the RBC model missing?

5. Often in the media one can hear or read that "GDP growth this quarter was driven by higher consumption expenditures". Through which channel an increase in consumption demand can increase GDP growth rate? Can this effect be permanent?

6. Assume the economy works as described by the New Keynesian model. Consider a situation when output gap is positive, i.e. current output is above the flexible-price level of output. In this situation, are firms hiring more or less labor than they would do in the flexible price case? What pressure does this put on the price level and output as the economy transitions towards the steady state?