







d. None of the above

(5) 7. Which of the following schools of thought would be opposed to the idea of a “Natural Rate of Unemployment”?

- a. Rational Expectations theory
- b. Monetarism
- c. Post Keynesians
- d. None of the above

(5) 8. According to “Ricardian Equivalence”:

- a. an increase in government spending will have no effect on real output
- b. an increase in government spending is matched by a reduction in consumption plus investment
- c. a reduction in taxes will have no impact on aggregate demand
- d. all of the above

(20) 9. Briefly explain the following rationales for the “efficiency wage effect” (i.e. where wages are a positive function of productivity).

a. shirking

b. adverse selection

(30)10. Briefly describe how the following would respond to the statement, “Price changes follow from nominal wage changes; nominal wage changes do not result from price changes.”

a. Post Keynesians

b. Rational Expectations theory