

SAMPLE ONLY

DEPARTMENT OF ECONOMICS
SAN JOSE STATE UNIVERSITY
MASTER'S COMPREHENSIVE EXAMINATION

DECEMBER 2, 2005
6:30 P.M. TO 9:30 P.M.
PROCTOR: ORTEGA

INSTRUCTIONS:

1. Answer ONLY the specified number of questions from the options provided in each section. Do not answer more than the required number of questions. Each section takes one hour.
2. Your answers must be on the paper provided. No more than one answer per page. Do not answer two questions on the same sheet of paper.
3. If you use more than one sheet of paper for a question, write "Page 1 of 2" and "Page 2 of 2."
4. Write ONLY on one side of each sheet. Use only pen. Answers in pencil will be disqualified.
5. Write ----- **END** ----- at the end of each answer.
6. Write your SJSU identification number in the upper right-hand corner of each sheet of paper.
7. Write the question number in the upper right hand corner of each sheet of paper.

Section 2: Macroeconomics, Monetary Theory, and Econometrics—Answer One Question.

2A. Use the aggregate demand-supply model to contrast classical, Keynesian, and monetarist theories. How did classical economists think that the aggregate supply curve was shaped? What about Keynesian economists? And what is the modern view? What explains shifts in the aggregate demand curve in each theory? How can this model portray stagflation, rational expectations, and real business cycle theory? You must use a diagram but be sure your written answer adequately explains it.

2B. Draw a Bailey (or monetary Laffer) curve, clearly labeling both axes and the maximum rate of real seigniorage that a government can generate *in the long-run*. What are the diagram's simplifying assumptions? Now explain in words why the point you indicated is indeed the maximum. Then illustrate on the graph how hyperinflation might get started, again explaining in words the process you are depicting.

2C. Complete Both Parts

Part 1. Consider the following regression model $Y_i = \beta_0 + \beta_1 X_i + v_i$.

- a. List all of the assumptions required to estimate the equation using OLS.
- b. For three of these assumptions show how a violation could occur, the estimation problems, and how you would correct the problem.

Part 2. Consider alternative functional forms to the standard linear model: $Y_i = \beta_0 + \beta_1 X_i + v_i$. Specify three of the alternative functional forms, provide an interpretation of the coefficients, explain why they might be preferred to the linear form, and explain how the model would be estimated.