

Questions for discussion proposed by participants answering Question 3d) in Homework

Question 3d):

An important aspect of macroeconomic analysis is to pose good questions in the sense of questions that are both interesting and manageable (not too big). Such questions can be raised - and discussed - in the Discussion Forum in Absalon as well as possibly in one of the lectures or class sessions later in the semester. What question would you suggest should be discussed? Please, state the question in English. It would be fine if your question could provoke debate.

The suggested questions are here reproduced exactly as received and listed in an order roughly corresponding to the lecture plan as of Aug. 29, 2015. I have arranged the questions so that the order roughly corresponds to the order of the sections in the course plan (section numbers are attached to the questions).

1) 1.1.3. Question about the level of the debt-income ratio and self-fulfilling expectations of default in the Eurozone: How can the ECB combat the self-fulfilling expectations of default? What has it done following the Eurozone crisis regarding this issue?

2) 1.1.3, 2.4. Is there a level of government debt (relative to GDP) after which a country has to default or to experience serious economic downturn even if it would return to a balanced budget? Is it better for a government to reduce its debt by raising the tax rate or by encouraging economic growth and so indirectly tax revenues?

3) 2.4. This is actually a question from footnote 22 in chapter 13:
I would like to discuss; For how long, can the US postpone a substantial depreciation of the dollar while maintaining the role as the world's principal currency reserve, given their increasing foreign debt and permanent trade deficit?

4) 1.1.3, 6.1. Can the public debt have an impact on the size of the Keynesian multiplier?
Hint: One could expect that a high debt level would have an impact on the forward-looking expectations and thereby on the consumption and investment decision of the agents.

5) 1.1.6, 1.2, 2.4, 5.3. Ricardian equivalence seems to be a theoretical concept that follows economics students throughout our studies, but is it realistic?

- 6) 1.1.6, 1.2, 2.4, 5.3. Is Ricardian equivalence really a possible real world outcome or just a theoretical implication based on the specific set of underlying (to some extent unrealistic) model assumptions for example found in the Ramsey model?
- 7) 6.1. The relevance of RE in public spending/fiscal multiplier. The assumption of RE may neutralize the fiscal multiplier effect. Studies have shown, that the multiplier is often around 1, and sometimes smaller than 1 (increasing fiscal spending may have a negative influence on GDP). This could be an argument for, that at least a share of households in the economy are RE, meaning that the fiscal multiplier isn't greater as some model predicts without RE predicts.
- 8) 2.3, 2.4, 6.2. Betalingsbalancen voksede sig uholdbart negativt tilbage i 1980'erne. Hvad skete, og hvordan kan dette analyseres i en af fagets SOE---modeller?
- 9) 6.3. We have lately in 2007 experienced a major economic crisis. Here the financial markets played a major role. The question I ask is therefore how financial frictions affect macroeconomic outcomes? How has financial frictions affected the crisis and can financial regulation help the problems with the financial frictions? Especially how moral hazard and asymmetric information is present in the financial markets.
- 10) 6.4, 8.2. a) After the economic crisis interest rates have been stuck near the zero lower bound for an extended period. Is that something that could become a more permanent state in the economy? b) And what are the implications on our economic models?
- 11) 6.4, 8.2. a) I'd like it if we could discuss the potential effects (and perhaps reasons for) the currently pursued negative interest rates in Sweden (-0.35%) and Switzerland (-0.75%). Rates can be found here: <http://www.centralbanknews.info/p/interest-rates.html>. b) This could tie into a discussion about the long-run desirability of a cashless society. (I'm not sure if this actually matters in terms of our models, ie., would seigniorage be possible/meaningful without physical cash?)
- 12) 1, 2, 8.1 and 8.2. What relevance do neo-classical macro models have if they could not predict the financial crisis and in extension - to what use is then the field of macro?
- 13) What is the practical use of advanced macroeconomics outside the university?
- 14) From a macro-economic viewpoint, is it then optimal to move public-sector jobs from the city of Copenhagen to more remote areas?

Some discussion points could be:

- a) Will there be less gains from specialization and potential agglomeration effects such that the productivity of the divisions may decrease?
- b) Will the competition for the jobs intensify because a whole new (larger?) pool of applicants may be interested in the jobs or because people are more willing to move for these jobs as it's cheaper to afford living in e.g. Næstved than in Copenhagen? If so, how will that affect wages (which are probably determined in collective agreements).

- c) Or will the competition for the jobs fall because the number of actually qualified applicants decrease because the workers that were qualified for these jobs have already moved to Copenhagen exactly for this reason and aren't willing to move back?
- d) Will there be more public investments (in buildings)? It's probably cheaper to buy land in more rural areas and newer, bigger buildings may increase the productivity of the workers and lead to higher wages.
