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

DECEMBER 7, 2018
6:00 P.M. TO 9:30 P.M.
PROCTOR: HUMMEL & LIU

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 exam 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. (Econ 202) Answer all of the following parts completely. Be specific.

a. Draw a standard aggregate demand-aggregate supply diagram correctly identifying both axes and all the curves. (Hint: if you put the interest rate on either axes, you automatically fail this question.)

b. What explains the slope of the aggregate demand curve?

c. Identify what can cause shifts in the aggregate demand curve. What factor do monetarists emphasize? What factor do Keynesians emphasize?

d. How would the pre-Keynesian neoclassical economists have drawn the aggregate supply curve? (You may describe it or draw it on a separate graph.) Explain why they would have drawn the curve this way.

e. How would your traditional Keynesians have drawn the aggregate supply curve? (Again, you may describe it or draw it on a separate graph.) Explain why.

f. Explain how the modern view compares with the pre-Keynesian and Keynesian views of aggregate supply. Then show on a diagram how a negative shock to aggregate demand would affect the curves in both the short-run and long run.

g. Now use the aggregate demand-aggregate supply model to portray the monetarist view of stagflation (i.e., inflationary recessions).

h. Finally, use the aggregate demand-aggregate supply model to portray what causes a recession according to real business cycle theory.

i. What theory of expectations does real business cycle theory depend upon?

(over)

2B. (Econ 203) Consider the following results from a linear wage regression:

variable	definition
wage	= earnings per hour
educ	= years of education
exper	= post education years experience
married	= 1 if married
female	= 1 if female
metro	= 1 if lives in metropolitan area
west	= 1 if lives in west
black	= 1 if black
asian	= 1 if asian
marrfem	= married * female
educfem	= educ * female
educblack	= educ * black
ehatsq	= squared residuals from wage regression

Wage and Squared Residuals Equations

	(1) lwage	(2) ehatsq
educ	2.280***	22.87***
	(0.18)	(4.00)
educfem	0.039	-5.52
	(0.269)	(5.91)
educblack	-0.572	-5.11
	(0.473)	(10.36)
exper	0.119***	2.07***
	(0.026)	(0.57)
married	3.387***	-21.65
	(0.968)	(21.21)
female	-4.853	-20.64
	(3.016)	(66.09)
marrfem	-1.788	45.12
	(1.336)	(29.27)

(**2B** continued on next page)

2B (continued):

metro	4.114***	57.43***
	(0.039)	(18.22)
west	0.504	12.23
	(0.758)	(16.62)
black	3.445	27.13
	(5.053)	(110.8)
asian	-1.539	-39.35
	(1.528)	(33.49)
_cons	-9.809***	-202.3***
	(2.222)	(48.7)
N	1000	1000
R-sq	0.300	0.074
adj. R-sq	0.292	0.064
F	35.53***	7.23***

Standard errors in parentheses
* p<0.10, ** p<0.05, *** p<0.01

a. How would you interpret the impact of another year of experience on the hourly wage rate?
b. How would you interpret the impact of the metro variable on the hourly wage rate?
c. Provide an interpretation of the education coefficient and the education*female interaction term based on the linear form. What would you conclude?
d. Provide an interpretation on the return on education for a male black and a female asian.
e. Produce a 2 by 2 table showing the wage differentials between married and female. Interpret the differentials?
f. Describe the base group in interpreting the dummy variables?
g. What would you conclude about the regression of the squared residuals? Which tests would be important in interpreting the regression results? Which variable(s) might be of concern?

2C. (Econ 235) 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 *provide a detailed explanation in words* (**a**) of the shape of the curve and (**b**) why the point you indicated is indeed the maximum. Your explanation should involve the demand for money and real cash balances. Then illustrate on the graph how hyperinflation might get started, again *explaining in words* the process you are depicting. Your verbal explanations must be clear, complete, and precise.