

ECO 305: Intermediate Macroeconomics
Homework Week 12: New Keynesian Model

Name: _____

For each of the following scenarios, describe and illustrate the short-run consequences on **(a) consumption, (b) investment, (c) real GDP, (d) employment, (e) unemployment, (f) real wage, (g) real interest rate, (h) aggregate price level, and (i) quantity of nominal money**. Use a New Keynesian general equilibrium model with sticky wages, utility-maximizing consumer behavior, profit-maximizing producer behavior, and a microfounded market for money.

1. Suppose the central bank decreases the money supply.

2. The government passes a bill to cut taxes today and likely finance it with decreases to government expenditures in the future.

3. Suppose there is a decrease in consumer confidence, causing consumers to expect a decrease in future income.

4. Suppose an improvement in online banking technology makes it less costly to conduct financial transactions. Notice this is an improvement in the technology for financial services, not more generally for the production of final goods and services.