

**PhD in Economics**

ISEG – Lisbon School of Economics & Management

*Universidade de Lisboa*

**Topics in Macroeconomics**

**Exam, 7 May 2025 - Duration: 2h 20m**

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1. **Choose three questions from the full set of questions.** Each question accounts for 6.6(6) points
2. Please use **different sheets** to respond to different questions.
3. This is an open-book exam and all the study materials in paper can be used. Scientific calculators are welcome, but personal computers, tablets, and cellular phones are strictly forbidden.
4. During the exam no clarifications can be made.

## I

1. ECB's President Mario Draghi on 26 July 2012 stated that the 'ECB is ready to do whatever it takes to preserve the euro'." In (Afonso et al., 2018).

- a) Explain how that main title question is addressed in this paper.
- b) Identify and comment the credit risk measures used in the analysis.

2. Consider the analysis of fiscal developments and economic growth assessed by Bleaney et al. (2001).

- a) Identify and explain the underlying key growth theories.
- b) Explain the contribution of that paper to the literature.

3. McCallum (2001) mentions that "The fiscal theory of the price level determination is of dubious validity".

- a) Explain the Fiscal Theory of the Price Level (TFPL).
- b) What are the main criticisms put forward by McCallum regarding the FTPL?

4. In the context of the paper by Silva (2019):

- a) What is the relevance of the pledgeability of assets for the analysis?
- b) Would there be any endogeneity issues regarding the estimation of the specification for cash-sales ratio?

## II

5. The empirical evidence presented in Brinca et al. (2016) shows that there is a significant positive conditional correlation between fiscal multipliers and Gini coefficients for a group of industrialised countries. Do the authors supply a set of probable economic mechanisms that could explain the above-mentioned evidence? Explain.

6. Krusell & Smith (1998) assume that agents are not fully rational in their perceptions. In what sense are they bounded? Why and how to they use this assumption?

**7.** The empirical findings of Santos et al. (2022) for the Portuguese economy indicate that fiscal policy may have to be tailored in different ways according to the source of the shock. Explain how and why.

### **III**

**8.** Consider Jaimovich, Rebelo & Wong (2019).

- a)** The authors document what they call “trading down”. Explain in what this consists, the authors’ empirical approach to study the effects of “trading down” and the main results of this analysis.
- b)** What are the implications of this phenomenon for traditional Real Business Cycle models?

**9.** Greenwald & Stiglitz (1993) introduce a mechanism that may be described as a “financial accelerator.” Explain in detail in what it consists, including how financial market disturbances propagate to real sector variables in their model.

**10.** Kaplan et al. (2018) is an important contribution to modern macroeconomics, by rethinking how monetary policy works in models with heterogeneous agents, as opposed to traditional representative agent models.

Comment on the statement above, explaining how differently monetary policy works in these two types of models and the main characteristics of their model that drives this result.

**11.** The results in Mehra & Prescott (1985) challenged the profession and initiated a abundance of research regarding what is called the equity premium puzzle.

- a)** Explain what is this puzzle that the authors document.
- b)** Describe the main results of the analysis in Mehra & Prescott (1985). Explain in detail.

## References

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- Krusell, P., & Smith, A. (1998). Income and Wealth Heterogeneity in the Macroeconomy. *Journal of Political Economy* 106(5), 867-896.
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