

Macro Module 22 Homework (2009 text)

(The attached PDF file has better formatting.)

Price mis-perceptions model (Chapter 15)

Barro discusses rules vs discretion as central bank policy.

*Part A:* If money is neutral, should a central bank be guided by rules or discretion? That is, if monetary policy affects inflation but not real variables, how should the central bank operate?

*Part B:* If money is not neutral, should a central bank be guided by rules or discretion? That is, if monetary policy affects real variables, how should the central bank operate?

Barro's discussion is more nuanced. The choice of rules vs discretion is not guided solely by the neutrality of money. But the two topics are related. Keynesian economists generally take one position; Friedman and his school take the other. This homework assignment tests if you understand the basic concepts in this chapter; a one paragraph answer is sufficient.