

Questions on Rational Expectation and RBC

1. Explain how Lucas's rational expectations model offers a departure from the new classical theory of unemployment.
2. Explain the rational expectation model in terms of simple AS - AD model .
3. Explain in terms of real business cycle theory .why business cycle of occur?
4. Briefly discuss the importance of technology shocks in explaining business cycle
5. Does money have a neutral effect on the economy in the RBC model? Can you offer microeconomic effect of Justification for the stickiness of nominal prices? Discuss in the context of Mankiw model
6. How does RBC theory explain the fluctuation in employment?
7. What is the Solow residual and how does it behave over the business cycle?
What factor causes the Solow residual to change
8. How can you use the concept of rational expectation to explain emergence of business cycles in response to unanticipated monetary shock?
9. What is the effect of anticipated monetary shock in a market clearing and rational expectation framework?

10. What is the role of intertemporal substitution of labor in the theory of real business cycle? Explain in this context the role of interest rate in output determination?
11. Use a model of a real business cycle to explain effects of fiscal shock and technology shock.
12. Construct a theory of small menu cost to explain price rigidity.
13. What is the basic assumption of the rational expectation approach? Explain why only unanticipated changes in money supply affect output?
14. How does the real business cycle theory differ from the new Keynesian theory?
15. What is the essence of rational expectation hypothesis?