

Examination Guidelines

Subject Area 2

Here are detailed guidelines for the **second exam**.

There will be 5 questions, 20 points each, as follows:

1. Textbook and reading #2
2. Root causes of the Global Financial Crisis
3. Consequences and policy options
4. Broader and deeper issues
5. COVID and the current macroeconomic issues

Some tips/sample questions

Questions 1 and 5 are relatively straightforward. For **question 1**, do the questions from the textbook suggested below, plus do reading #2.

- a. 2, 3, and 8, on pp.65-66.
- b. 2, 3, and 4, on p. 83.
- c. 5 on p. 107
- d. 3 and 9 on pp., 131-132.

Question 5 will be based on readings in Group 3.

For **questions 2, 3, and 4**, inevitably there will be some overlap. Similarly, there is quite a lot of overlap among the readings. That is deliberate. The idea is to give you different perspectives both by different authors and also based on different time periods—anywhere from the eye of the storm to retrospectives. Also, because of the complexity of the issues, it is difficult to draw bright lines among the various topics. With these caveats in mind:

Question 2 focuses on some of the root causes of the crisis. Question 3 focuses on some of policies that were adopted in the aftermath of the crisis. Question 4: takes a retrospective and looks at some deeper philosophical/structural/psychological issues.

Here is a ****partial**** list of topics/concepts that you need to be familiar with:

- free-market fundamentalism, self-correcting/self-adjusting markets, regulation/deregulation/re-regulation, interventionism, role of government, black swans
- market concentration, oligopoly, oligarchy
- inequality—causes and consequences
- asymmetric information, externalities, Minsky Moment
- moral hazard, too-big-to-fail, too-big-to-jail, bailouts

- rating agencies, conflict of interest
- ARMs, NINJA loans, home equity loans, subprime mortgages, underwater mortgages, teaser rates, financial engineering, securitization, perverse/misaligned incentives
- leverage, risk-return, mark-to-market accounting, solvency, deposit runs
- Dodd-Frank

You are *not* required to memorize exact dates and/or numbers. Rather, you need to develop a good grasp of the essence of the various concepts/arguments.

The exam will be conducted at 1:55 PM on February 22 in our regular classroom. Please make sure to bring a calculator and a ruler with you. You will have the entire class period—1:55-3:40—to finish the exam.

Please note that the answers to end-of-chapter *Questions and Problems* in the Blanchard textbook are available on Nexus.