

SIMON FRASER UNIVERSITY
Department of Economics

Econ 305
Intermediate Macroeconomic Theory

Prof. Kasa
Fall 2021

PROBLEM SET 3
(Due December 6)

1. (25 points). Read the article by Paul Krugman entitled “Golden Cyberfettters”, which is posted on the class webpage. According to Krugman, would it be a good idea to switch to Bitcoin-style monetary system? How would such a system resemble the 19th century Gold Standard? What would be the costs and benefits of a monetary system based on a digital currency? Can you think of way to improve the functioning of such a system? (Hint: Be sure to discuss the trade-off between price level stability and money supply stability).
2. (25 points). Although most people think that the Covid virus originated in China, and then spread elsewhere, China got the virus under control relatively quickly. So for the purposes of this question, let’s think about Covid as representing a large negative demand shock in the USA, which then gets transmitted back to China. Use the Keynesian open-economy IS-LM framework to describe how this negative demand shock would affect China. What actions would the central bank in China need to take? Use graphs to illustrate your answer. (Hint: Assume China has a fixed exchange rate against the US dollar, and that capital flows freely between the two countries). Would the adverse Covid shock in the USA necessarily be bad for China?