1. A consumer's consumption-utility for a two-period horizon is $U = C_1 C_2^{0.6}$ ; his income stream is $y_1 = 940, y_2 = 540$; and the market rate of interest is 8%.

   (1) Determine values for $C_1$ and $C_2$ that maximize his utility. (10%)

   (2) Is he a borrower or lender? (15%)

2. Assume that the cost functions of two firms producing the same commodity are

   $C_1 = 2q_1^2 + 20q_1 - 2q_1q_2$ ; $C_2 = 3q_2^2 + 60q_2$

   (1) Determine the output levels of the firms on the assumption that each equates its private MC to a fixed market price of 300. (10%)

   (2) Determine their output levels on the assumption that each equates its social MC to the market price of 300. (15%)

3. Please graphically analyze the impact of the increase of government expenditure on the equilibrium interest rate, exchange rate, general price level, net export and GDP of the economy under:

   (1) flexible exchange rate regime. (10%)

   (2) fixed exchange rate regime. (10%)

4. [By Allison Schrager, November 22, 2022]

   It's Now Clear That QE (Quantitative Easing) Was a Colossal Policy Mistake

   There's no convincing evidence that central banks' purchases of trillions of dollars of bonds and other financial assets helped any economy.

   The great quantitative easing experiment was a mistake.

   It's time central banks acknowledge it for the failure it was and retire it from their policy arsenal as soon as they're able.

   Based on the above information, please answer the following questions: (30%)

   (1) Please describe the direct costs of QE for the central bank. Please also describe the indirect costs of QE for the economy in terms of risk assessment. (10%)

   (2) Please compare and contrast the conventional monetary policy and QE. (10%)

   (3) Please justify that central banks need to admit QE was possibly a mistake and now is the time to take a hard look at monetary policy over the last decade. (10%)

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