1. How do the hierarchical and dual mandates differ in terms of macroeconomic consequences?

2. What is the *divine coincidence*? When and why does it *not* hold true?

3. Is the Taylor rule of greater use to activist or to nonactivist policy makers? Is the Taylor rule compatible with a hierarchical mandate?
4. How might strict adherence to the Taylor rule discourage demand-pull inflation? How might demand-pull inflation occur, nonetheless?

5. Suppose the economy is in a long-run equilibrium when a positive demand shock occurs.
   a. On the graphs below left, show what happens to bring the economy back to long-run equilibrium, assuming that there is no policy response.
   b. In words, describe how the graph would be different, if policy makers did intervene.
2. Suppose the economy is in a long-run equilibrium when a temporary, favorable aggregate supply shock occurs.

a. On the graphs above right, show what happens to bring the economy back to long-run equilibrium, assuming that there is no policy response.

b. In words, explain why “no response” is the best policy.