

Economics 402

**Optional Assignment #3**  
Due on Monday 4/28 by 5:00pm

This assignment is based on material in the reading package. This is intended to be difficult material.

Read Lucas, Mankiw, Sargent and Wallace, and Modigliani in the reading package. What are rational expectations? How do they impact analysis of the usefulness of stabilization policies? In the New Classical setting, what is the source of fluctuations in the unemployment rate? (10 points)

Do question 1 on p. 333 at the end of the Appendix to Chapter 11. (10 points)