

1. ____/20

2. ____/10

3. ____/10

4. ____/5

5. ____/30

Total: ____/75

Name: _____

Team: _____

Unit 4: Money, Banking and Monetary Policy Problem Set #4

1. Define and give specific examples of each of the following:

- Barter, commodity money, fiat money, stock, and bonds (____/5)
- Transaction demand for money and asset demand for money (____/5)
- The reserve requirement and the money multiplier (____/5)
- Fiscal policy and monetary policy (____/5)

2. Money Market Graph

- Draw the money market graph showing the demand and supply for money. Explain why the demand for money is downward sloping. Explain the relationship between the interest rate and investment and how an increase in the money supply will affect aggregate demand (____/5)
- Draw the following four graphs with an economy experiencing an inflationary gap: money market, investment demand, aggregate demand and supply (with the LRAS), and the Phillips curve. Show what happens in the short-run on all three graphs when the central bank decreases the money supply. (____/5)

3. Fiscal Policy and Monetary Policy (____/10)

- Assume an economy is in a recession. Identify how fiscal policy be used to close the recessionary gap. How does that compare to monetary policy? Identify the three tools the central bank can use to return the economy to full employment. (____/5)
- Assume an economy is experiencing inflation. Identify the three things the central bank can do to fight inflation and how they affect investment and consumption. Explain why monetary policy might be used to fight inflation rather than fiscal policy. (____/5)

4. Loanable Funds Market (____/5)

Assume an economy is in a recession and the government increases deficit spending. Draw the market for loanable funds and identify what will happen to the real interest rates and the quantity of loans. Define crowding out and explain why deficit spending might not completely close the recessionary gap. (____/5)

5. Practice FRQs (____/30 Points)