Macroeconomics 1 - Seminar 5

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Which of the following is NOT a characteristic of commodity money?

a. It must have an intrinsic value.

b. It must be easily divisible, in order to make small payments.

c. It must be durable.

d. It must be set by decree.

Which of the following is NOT included in the M1 measure of the stock of money?

a. checking account deposits

b. coins in circulation

c. dollar bills in circulation

d. savings account deposits

Which of the following is included in M2, but is not included in M1?

a. traveler's checks

b. checkable deposits

c. money market mutual funds

d. demand deposits

Which of the following actions by the Fed will cause the supply of money to grow?

a. The Fed sells U.S. Treasury bonds.

b. The Fed increases the required reserve ratio.

c. The Fed reduces the discount rate.

d. The Fed audits banks more strictly.

All of the following occur when the Fed lowers the Discount rate, EXCEPT:

a. banks borrow more than otherwise from the Fed.

b. banks' reserves increase.

c. banks start lending more.

d. banks borrow more than otherwise from other banks.

Which of the following occurs when the Fed reduces the reserve requirement?

a. Banks become more reluctant to lend.

b. The amount of money in the economy is reduced.

c. The money multiplier gets bigger.

d. Interest rates tend to rise in the economy.

You take $100 you kept under you mattress and deposit it in your bank account. Banks are holding 10% reserves at the central bank, the remaining is used to issue loans.

By how much did the total level of deposits increase?

The money multiplier = 1/0.1=10

The change in the total level of deposits= 10*$100=$1,000

By how much does the money supply increase?

The change in money supply=$1,000 - $100=$900

Let's consider the effects of inflation in an economy composed of only two people: Bob, a bean farmer, and Rita, a rice farmer. Bob and Rita both always consume equal amounts of rice and beans. In 2010, the price of beans was $1, and the price of rice was $3.

a. Suppose that in 2011 the price of beans was $2 and the price of rice was $6. What was inflation? Was Bob better off, worse off, or unaffected by the changes in prices? What about Rita?

   Inflation=100%, Bob and Rita are unaffected by the changes in prices

b. Now suppose that in 2011 the price of beans was $2 and the price of rice was $4. What was inflation? Was Bob better of , worse off, or unaffected by the changes in prices? What about Rita?

   Inflation=50%, Bob is better off and Rita is worse off

c. What matters more to Bob and Rita-the overall inflation rate or the relative price of rice and beans?

   the relative price