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Fall 2009, Intermediate Macroeconomics, section 1

ECON 2202 Quiz VI

General recommendations:

- Read questions thoroughly.
- Please respond on this copy.
- You have 20 minutes.
- Work individually.
- There are two pages.
- Good luck!

Your name:

1. Circle the appropriate answer on each of the following items. Circle multiple items if necessary (or none):

   (a) The cash-in-advance constraint reflects
   a) financial intermediation through banks; b) the transaction role of money; c) the store of value role of money; d) the risk inherent in bonds.

   (b) To increase the money supply the government can
   a) increase government expenses; b) buy Treasury bonds; c) sell Treasury bonds; d) give credit cards to households.

   (c) If the real interest rate increases, money demand
   a) increases; b) declines; c) remains unchanged; d) we do not know.

   (d) If the money supply increases in the monetary intertemporal model,
   a) output increases; b) output decreases; c) prices increase; d) prices decrease.

2. Explain what the Friedman Rule is.

3. WHat is the fundamental reason why money is neutral in the model economy we have worked out, i.e., what assumption drives this result and why?

4. Suppose there is a positive shock to current total factory productivity. What happens to the price level? Why?

5. Suppose we were to introduce iPods as currency. Would they make good currency? Explain.

Bonus question: Suppose the level of uncertainty increases in an economy to the point that Treasury bonds are not considered to be risk-free anymore. What does this mean for money demand and why?