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**Fall 2003, Intermediate Macroeconomics, section 2**

## **ECON 219 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:
  - (a) The cash-in-advance assumption means:
    - 1) money needs to be printed before it can be used;
    - 2) some goods require currency to be purchased;
    - 3) households obtain labor income at the start of the period;
    - 4) households obtain money transfers from the government at the start of the period.
  - (b) The money supply is:
    - 1) endogenous;
    - 2) determined by policy;
    - 3) irrelevant;
    - 4) indeterminate.
  - (c) The Fisher relation says:
    - 1)  $R = r + i$ ;
    - 2)  $R = r - i$ ;
    - 3)  $1 + R = \frac{1+r}{1+i}$ ;
    - 4)  $1 + R = (1 + r)(1 + i)$ .
  - (d) Seignorage is government revenue raised by:
    - 1) a tax on transactions;
    - 2) issuance of money;
    - 3) issuance of treasury bonds;
    - 4) lump-sum taxation.
2. Why do we want to consider more than M0 in macroeconomics?

3. What is the difference between money neutrality and money super-neutrality?

4. Why does liquidity demand depend positively on income?

5. What is the optimal amount of money?

**Bonus question:** On July 24, 1993, the Russian central bank announced that all bank notes issued before 1993 would become invalid on July 26, 1993. What impact on real and nominal variables would such an announcement have?