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Fall 2005, Intermediate Macroeconomics, section 3

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) Buying an item with cash would be an example of money's role as a:
a) medium of exchange, b) store of value, c) unit of account, d) none.
 - (b) A model in which some goods must be purchased with cash is called a:
a) monetary model, b) cash-in-advance model, c) circulating cash model,
d) double coincidence of wants model.
 - (c) The Fisher relationship may be described by the following equation, in which R is the nominal rate of interest, r is the real rate of interest and i is the rate of inflation:
a) $i = r + R$, b) $R = i + r$, c) $1 + i = \frac{1+r}{1+R}$, d) $1 + r = \frac{1+R}{1+i}$.
 - (d) To increase the money supply, the government may do any of the following:
a) drop money out of helicopters, b) increase government spending and taxes by the same amount, c) reduce the quantity of bonds with no change in either government spending or taxes, d) temporarily increase government spending, with no change in either taxes or the quantity of government bonds.
2. Why does the Friedman Rule lead to an efficient outcome, the best outcome that a social planner could get?

4. Show graphically the impact of an increase in total factor productivity in the monetary model.

Bonus question: List three factors that increase the demand for money (beyond Y and $r + i$).