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Fall 2006, Intermediate Macroeconomics, section 1

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) A central bank is:
 - a) a commercial bank with monopoly power; b) a commercial bank with the power to influence markets; c) a bank with money issuing powers; d) a bank issuing Treasury bonds.
 - (b) The Fisher Relationship says:
 - a) $R = r + i$; b) $r = R + i$; c) $i = R + r$; d) $i = \frac{P' - P}{P}$.
 - (c) $M1$ comprises:
 - a) currency in circulation; b) savings accounts; c) checking accounts; d) credit card balances.
 - (d) The velocity of money is:
 - a) the growth rate of the money supply; b) how many times money is used for transactions in a given period; c) the speed at which a change in the money supply affects the economy; d) the proportion of the money growth rate that is reflected in the inflation rate.
2. Define money neutrality and money superneutrality.

3. Explain why money is not superneutral without using a graph.

4. Explain why money demand is upward sloping, while usually demands are downward sloping.

5. Explain why the Friedman Rule holds in the business cycle model with money we saw in class.

Bonus question: Explain why the Friedman Rule may not be optimal after all.