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Fall 2007, 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 (or none):
 - (a) The way we have interpreted the cash-in-advance constraint in class, it means that
 - a) firms need advance cash for wage payments;
 - b) firms need advance cash for investment;
 - c) households need advance cash for consumption;
 - d) households need advance cash for taxes.
 - (b) The real return of money is:
 - a) R ;
 - b) r ;
 - c) i ;
 - d) 0.
 - (c) In the intertemporal model with money, the optimal inflation rate is:
 - a) r ;
 - b) close to 0;
 - c) 0;
 - d) $-r$.
 - (d) In the intertemporal model with money, the price P represents:
 - a) the price of the consumption good with respect to money;
 - b) the price of money with respect to the consumption good;
 - c) the inverse of the price of the consumption good with respect to money;
 - d) the inverse of the price of money with respect to the consumption good.
2. Explain what we mean by absence of double coincidence of wants. What has money to do with it?

3. What is the classical dichotomy?

4. Explain why money demand decreases with the nominal interest rate.

5. Why is it costly to have inflation?

Bonus question: Explain why it is a good idea for central bank to adhere to policy rules.