

Study Guide 2 – Economics 103

1. What are the functions of money? What do we mean by M1, M2? What backs the money supply of the US?
2. What are the assets and liabilities of a bank?
3. How do banks create money? What is meant by the money multiplier? In cases of money multiplier you can ignore currency drain.
4. Sample question: A bank has \$400,000 in deposits and \$50,000 in cash. The reserve requirement is 10 percent. The bank's required reserves are _____, and its excess reserves are _____.
5. Given the information above, what is the maximum the money supply will be able to expand if the bank lends out all of its excess reserves and currency holdings are zero?
6. What do we mean by monetary policy and what institution is responsible for carrying out monetary policy.
7. What are the three policy tools the Federal Reserve can use to change the money supply?
8. What is the opportunity cost of holding money?
9. What factors affect the demand for money? Understand how the supply and demand for money determine the rate of interest.
10. What is the equation of exchange? If velocity is constant what should be monetary policy?
11. Know all the factors that determine exchange rates.
12. Assume the exchange rate market for yen in terms of dollars in equilibrium at an exchange rate of 110 yen per dollar. Now suppose interest rates in the US rise relative to those Japan. Using supply and demand curve analysis what would be expected to happen to the Yen/\$ exchange rate.
13. What do we mean by purchasing power parity? Give an example.
14. What is appreciation of a currency versus depreciation of a currency?
15. Be able to show how demand for a country's exports etc. affect the demand and supply of a currencies and the exchange rate.

16. Why does the aggregate demand curve slope downward? Why does the aggregate supply curve slope upward?
17. What is the difference between the short-run and long-run aggregate supply curve (classical). Explain the reasoning behind the shapes.
18. Be able to explain all the factors that shift both the AD and AS curves.
19. Be sure to know all domestic as well as foreign factors that shift the curves.
20. Construct a number of different scenarios in which the AD and/or AS functions will shift. Show the effects on the price level and real output.
21. Using the AD-AS model explain the effects of the following. Be sure to describe the changes that take place in the short run and long run.
 - a. Decrease in consumers' expectations (people are getting worried about the future of the economy).
 - b. Increase in the price of oil.
22. Everything else.