

## Money: Problems

Suppose that an economy has the following assets:

Asset	\$
Currency	1000
Electronic Reserves at the Central Bank	5000
Savings Accounts	2000
Real Estate	10,000
Stocks	8000
Checking Accounts	9000

1. Calculate the M1 and M2 money supplies.
2. Calculate the monetary base.
3. Calculate the M1 and M2 money multipliers.
4. True or False? M1 must always be at least as large as the monetary base.
5. True or False? M2 must always be at least as large as M1.
6. Suppose that the monetary authority increases the monetary base by \$1000. If the M1 multiplier is one, what might happen to the figure from the Table?
7. Critique the following statement: "I can currently exchange \$1200 of money for an ounce of gold. Thus, my money is backed by gold."
8. Why are more liquid assets more often counted as money?
9. How does a larger money supply affect interest rates?
10. Suppose that demand for money increases. What happens to interest rates?
11. Suppose nominal GDP equals \$15 trillion and the money supply is \$3 trillion. Calculate velocity.
12. Why do the vast majority of economists prefer fiat money to commodity or commodity backed money?
13. True or False? If the monetary base doubles, the price level should also double soon afterwards.