Monetary Policy: Problems

1. Why are more liquid assets more often counted as money?

2. Suppose that a bond promises to pay $1000 in one year. If it sells for $800, what is its yield?

3. Suppose that the bond from #2 instead sold for $700. What would its yield be?

4. Consider the AS/AD model where the economy is initially at the point where the output gap is zero. Note that this coincides with the LRAS. Now suppose that asset prices fall. What should the Federal Reserve do?

5. Consider the AS/AD model where the economy is initially at the point where the output gap is zero. Now suppose that taxes fall. What should the Federal Reserve do?

6. Consider the AS/AD model where the economy is initially at the point where the output gap is zero. Now suppose higher energy prices lead to lower productivity. What should the Federal Reserve do?

7. Why is your answer to #6 more complicated than for #5?

8. True or False? Expansionary monetary policy increases both aggregate supply and aggregate demand.

9. What is "quantitative easing?"

10. True or False? The Federal Reserve Act requires the Fed to target 2% inflation.

11. Why is Bitcoin not counted as money (*e.g.* the M1 definition)?

From the textbook

12. What is the "velocity" of money?

13. What regulatory responsibilities did Congress direct to the Federal Reserve?

14. What is the original purpose of the Fed, and many other modern Central Banks?