

## Quiz #4

Enjoy!

May 2, 2008

### Problem 1 - Connecting monetary stimulus and aggregate output.

If the Fed wants to stimulate the economy – *i.e.*, increase output/employment – it will (circle the correct terms in bold)

- (a) **decrease** / **increase** the money supply, which in turn will
- (b) **lower** / **raise** the rate of interest, which
- (c) **decreases** / **increases** investment, which
- (d) **decreases** / **increases** aggregate demand, which increases aggregate output.

### Problem 2 - Two graphs of the supply of and demand for money.

- (i) In Problem 1, the Fed hopes (a) causes (b). Draw a picture where that is indeed the case.
- (ii) Draw another picture where the Fed's policy fails: where (a) fails to cause (b). Also, write down the (two word) name of this unfortunate situation.

**Problem 3 - Two graphs of the demand for investment.**

- (i) In Problem 1, the Fed also hopes (b) causes (c). Draw a picture where that is indeed the case.
- (ii) Draw another picture where the Fed's policy fails: where (b) fails to cause (c). Also, write down the name of this situation (a phrase between two and five words).

**Problem 4 - Aggregate supply.**

- (i) In Problem 1, the change in (d) causes an increase in aggregate output. Draw a picture where the conclusion of (d) fails to occur (where aggregate demand increases, but where there is no change in equilibrium output/employment).
- (ii) What happens to the price level in your picture?
- (iii) Which view of the economy does your picture represent: hybrid, monetarist, or Keynesian?