Study Questions No. 5 (February 23, 2012)
Economics 130
Winter 2012

These key terms and questions are designed to help you in your understanding of the material covered in class and in the textbook.

Key terms:
C/D
R/D
m
M = m * B
OMO
Discount rate
Discount loan
FOMC
Reserve requirements
Interest on Reserves
Federal Funds
Federal Funds Rate
AE Curve
Okun’s Law
Output Phillips Curve
Unemployment Phillips Curve
Supply shock, v
Output gap
“natural rate of unemployment”
NAIRU
Hysteresis
Potential output and link to “natural rate” of unemployment
Accommodative monetary policy
Non-accommodative monetary policy
Monetary Targeting
Interest rate targeting
Neutral interest rate
Required Reserves
Excess Reserves

Questions:

1. What is the difference between the NBER definition of recessions and the definition using the Output Gap? Why might this explain difference “perceptions” of whether the economy is currently in a recession?
2. Assume C/D is 0.10 and R/D is 0.20. What is the money multiplier?
3. Using no. 2 above, assume there is a bank panic and C/D rises to 0.50. What happens to m? How big a change is this?
4. Assume C is $250 billion and R is $150 billion, what would M be in no. 2? What would it be in no. 3 after the change in C/D?
5. Explain intuitively why an injection of reserves into the banking system will create “new” money?
6. How is the Fed able to control the real interest rate in the short-term? What is assumed for this to be the case?
7. Why might an accommodative monetary policy to a supply shock lead to a longer-term problem with inflation?
8. What are the assumptions behind the theory of monetary neutrality? When might monetary policy not be neutral over the medium term?
9. True or False and Explain: The U.S. Banking system has never had reserves higher than deposits.
10. True or False and Explain: The U.S. Banking system never has a sizable fraction of reserves being “excess reserves.”
11. True or False and Explain: The Fed loses control over monetary policy stimulus when interest rates are at zero and banks are willing to hold virtually unlimited amounts of excess reserves.
12. Does the banking system create money or the Fed?
14. Questions 1, 5, 9, 11 on pages 385-386.