ECO 5003
Brief answers to End of Chapter items, Chs. 28-32

Ch. 28
9.  a. seigniorage;  b. commodity money;  c. token money;  d. legal tender;  e. unit of account.

11. Increase in M supply led to increase in P level due to lower value of gold relative to goods/services.

14.  a. issue currency, buy/sell govt. bonds, loan to member banks, clear checks, require banks to hold reserves.  b. promote high employment, econ. growth, price stability, i rate, financial mkt, and exchange rate stability.

15. led to moral hazard and undue risk-taking

Ch. 29
17.  a. + res, – bonds;  b. + res, + loans due Fed.;  c. excess res fall.

18.  a. + cash/res, + DD;  b. + loans, + DD;  c. – res, – DD;  d. – loans, – NW

19. New req’d res = $1,000. New loans, $3,000. If $3,000 new reserves held, excess = $2,000.

20. If r = .10, m = 10; r = .05, m = 20. If r = .15, m = 6.67;  r = .20, m = 5.


Ch. 30
14. AS & AD initially intersect at Y_p. If money supply increases and AD increases, expansionary gap occurs. Eventually, SRAS shifts to left as wages and input prices rise, and there is a return to Y_p at a higher price level.

15. a. decrease money S;  b. sell bonds;  c. i rate up, Q_d of money falls; I falls, AD falls, Y_p does not change, P level falls, equilib. level of Y falls.

17. V is a constant.  a. nom. GDP up 5%;  b. falls by 8%;  c. nothing;  d. P rises in a, falls in b, no change in c. In a and b, effect is split between change in P and in GDP, depending upon slope of SRAS.

18. a. money D increases;  b. i rate increases;  c. no change in i;  d. would add to instability by having pro-cyclical rather than counter-cyclical impacts.

Ch. 31
13.  a. if fast, passive will work;  b. same as a;  c. long lags stymie active policy;  d. makes it difficult to manage active policy.

(continued next page)
15. Gov. policy to reduce AD leads to contr. gap. Then, if passive, wait for wages and input prices to fall until SRAS shifts to the right.

16. a. decision making; b. effectiveness; c. recognition; d. implementation