

Chapter 14

Homework Assignment

- Graph the effect on the nominal interest rate for each of the following changes in the money market.
 - The Fed pursues contractionary monetary policy.
 - Individuals, worried about future economic conditions, decide to hold more cash.
 - There is a rush to buy bonds.
 - The Fed pursues expansionary monetary policy.
- Suppose the economy-wide demand for money in the fictitious country "Alpha" is given by $P(0.25Y - 20,000i)$. If the price level (P) equals 3.0 and real output equals 15,000, where should the Fed set the nominal money supply if it wants nominal interest rates at 5%?
- An economy is described by the following equations:

$$C = 5000 + 0.75(Y - T) - 8,000r$$

$$I^p = 2500 - 10,000r$$

$$G = 1600$$

$$NX = 0$$

$$T = 2500$$

$$r = .10$$

Solve for short-run equilibrium output.

Key

- 1.a. money supply decreases, i rises.
b. money demand increases, i rises.
 - a. money demand decreases, i falls.
 - b. money supply increases, i falls.
2. 8250
3. $5000 + .75(Y - 2500) - 8000(.1) + 2500 - 10000(.1) + 1600 =$
 $5425 - .75Y = Y$
 $5425 = .25Y$
 $21700 = Y$