



College of Business Administration
Department of Economics
Aggregate Economic Conditions & Analysis
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Assignment VII

Monetary Growth Rate and Inflation

Assume that for each percentage point increase in the nominal interest rate, people want to hold 100 goods fewer real cash balances. During period 2 people (correctly) become aware that the growth rate of money supply will increase from 5 percent to 10 percent per year.

a) Fill in the market clearing values in the table below.

Time Period	Real Interest Rate, r	Expected Inflation, π	Nominal Interest Rate, R	Nominal Money Supply, M	Price Level, P	Real Money Supply, M/P
0	3%	5%	8%	\$5714.29	\$2.86/good	2000 goods
1	3%	5%	8%	\$6000.00	\$3.00/good	2000 goods
2	3%	10%		\$6300.00		
3	3%	10%		\$6930.00		
4	3%	10%		\$7623.00		

b) In period 2, the price level 'jumps' to its new, higher level. **In details**, explain why?