



Monmouth
COLLEGE

• Name: _____

• Date: _____

ECON 301 Intermediate Macroeconomics

Quiz #2

Spring 2024

INSTRUCTIONS:

- Please read all questions carefully before you begin answering.
- Answer all questions in the spaces provided on the question sheet.
- This quiz consists of 7 pages, including this one. There are a total of 5 problems with a total of 14 subquestions.
- This is a closed-book quiz. Please remove all materials from the top of the desk and take any necessary items from your bags before the exam begins.
- The recovery rate for Quiz #2 is 50%.

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Problem 1. Definitions

(5 Points Each)

Select FOUR items on the list of items below, and provide a definition of the items that you chose.

- Required Reserve Ratio
- Real Interest Rate
- Discount Rate
- Fiscal Policy
- Open Market Operations
- Risk Premium

1.A. Item #1: _____

1.B. Item #2: _____

1.C. Item #3: _____

1.D. Item #4: _____

Problem 2. True / False**(5 Points Each)**

Determine whether the following statements are either TRUE or FALSE. If you deem that the statement is TRUE, there is no need to justify your answer. If you deem that the statement is FALSE, you MUST justify your verdict by providing an explanation.

2.A. The government cutting taxes is considered to be an example of a contractionary fiscal policy.

2.B. The Fed raising interest rates is considered to be an example of an expansionary monetary policy.

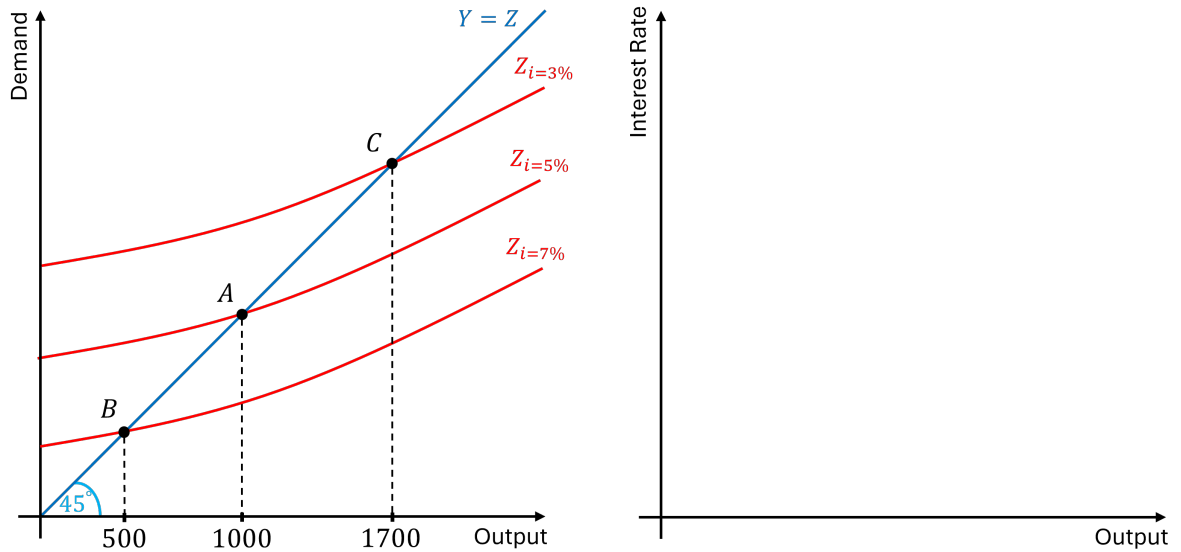
2.C. Bond prices and interest rates are negatively correlated.

2.D. When households' income increases, the demand for money will increase.

Problem 3. Short Answers: The IS Curve

(10 Points Each)

3.A. Using the graph on the left, plot this economy's IS curve. Make sure to label ALL graphs, interest rates, and output values.



3.B. Answer the following questions about the IS curve:

- What does each point along the IS curve represent?
- If Y increases, how does the IS curve react?

Problem 4. Short Answers: Money Supply**(10 Points Each)**

4.A. Money must serve three functions in the economy. List the three functions of money, and provide a short explanation describing each function.

- Function #1: _____

- Function #2: _____

- Function #3: _____

4.B. Suppose that the Fed conducts an open market purchase of \$1,000,000 where the required reserve ratio is $r = 10\%$.

- What is the maximum amount of new money that can be created in this economy?

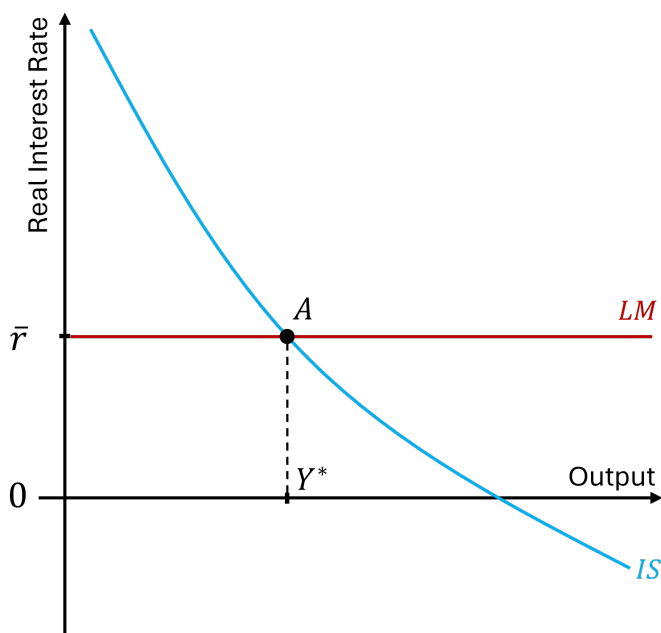
- How can the Fed increase the amount of new money supplied in the economy without purchasing more bonds?

Problem 5. Short Answers: The IS-LM Framework

(10 Points Each)

Suppose that an increase in the uncertainty regarding the economy caused a sharp increase of the risk premium assessed by financial intermediaries in the short run.

5.A. Illustrate the effects of the change in the risk premium in the given diagram.



5.B. If you are the Chair of the Federal Reserve Board, and your goal is to allow the economy to return to the original state, how would you conduct monetary policy?

• Original Score: _____

• Recovered Score: _____

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