Monmouth COLLEGE

- Name: ______________________
- Date: ______________________

# ECON 301: Intermediate Macroeconomics

# Quiz #2

# Spring 2025

**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 5 pages, including this one. There are a total of 3 problems with a total of 12 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.

**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.

- Federal Funds Rate
- Nominal Interest Rate
- LM Curve
- Fiat Money
- Open Market Operations
- Double Coincidence of Wants

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. A higher risk premium means that an asset is considered safer by investors.

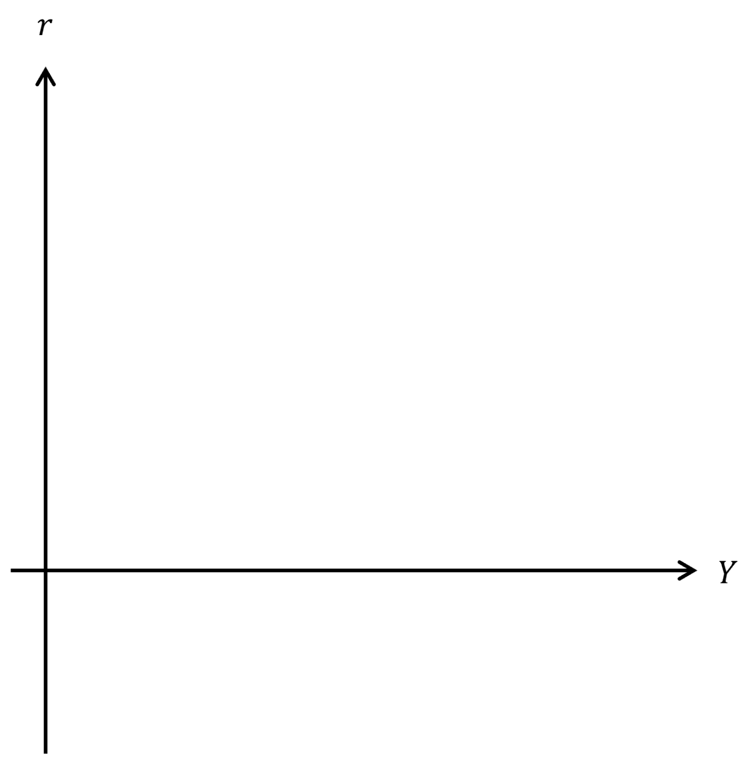
2.B. A decrease in the federal funds rate typically leads to an increase in borrowing and investment.

2.C. The IS curve represents equilibrium in the money market, while the LM curve represents equilibrium in the goods market.

2.D. An asset that satisfy the following three functions is defined as money: a medium of exchange, a store of value, and a source of economic growth.

**Problem 3. Short Answers** **(15 Points Each)**

3.A. Illustrate and explain how an increase in risk-taking behavior by financial institutions affects the extended IS-LM framework. On your graph, clearly label the IS and LM curves, as well as the equilibrium point before and after the change in risk preferences.




3.B. Given the increase in financial institutions' risk appetite, what policy actions could the Federal Reserve take to manage potential risks and maintain economic stability? Explain how these policies would shift the IS and/or LM curves and influence macroeconomic equilibrium.

**Problem 3. Short Answers (continued)** **(15 Points Each)**

3.C. Given the increase in financial institutions' risk appetite, what policy actions could the government take to manage potential risks and maintain economic stability? Explain how these policies would shift the IS and/or LM curves and influence macroeconomic equilibrium.

3.D. If you were in charge of economic policy, would you prioritize monetary policy or fiscal policy to address the risks associated with increased financial risk-taking? Justify your choice by discussing the effectiveness, feasibility, and potential unintended consequences of each approach.

- Original Score: ____________
- Recovered Score: ____________
- Original Date: ____________
- Recovered Date: ____________