Wilf Csaplar Jr.   Economics 162   Homework #8   Due 11/13
The Last One!

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

The map on page 338 has an error. We are in the Cleveland Federal Reserve Bank's district, not Richmond Federal Reserve Bank's district.

1) (10 points each) For each event, determine what happens to M1, M2, and M3. Explain how you reached each conclusion.
A) You take $109,034 out of one CD and deposit it in your checking account.
B) You write a check to the book store for one semester's books, totaling $89,023.
C) You borrow $3000 from the bank.

2) (15 points) Why do we use financial intermediaries rather than do direct financial transactions?

3) (20 points) What is moral hazard? Give an example in the insurance industry.

4) (20 points) What is adverse selection? Give an example in the insurance industry.

5) (15 points) Since macroeconomic theory assumes that demand for goods and services is the main determinant of the money people keep on hand, should our theory work best with M1, M2, or M3? Explain your logic.