

The last one!

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (10 points each) Explain how each event affects M1, M2, and M3.

A) You move \$100 from your savings account to your demand deposit (checking) account.

B) You pay for your textbooks with a \$400 check.

C) A major corporation moves \$400,000 from their large CD (type O account) to their savings account.

2) (15 points) Suppose the inflation rate was 60%, then what is the inflation tax rate? Show all work. How is that a tax on the individuals?

3) (15 points) Suppose the nominal interest rate is 10%, the tax rate is 40%, and the inflation rate is 20%. What is the net real interest rate? Show all work and briefly explain how you put the numbers in where they are.

4) (20 points) The book says that countries with shallow finance typically have high legal reserve requirements on commercial banks. Why would a country want high legal reserve requirements? Why would that lead to shallow finance?

5) (20 points) What leads to a financial panic? Why does Jagdish Bagwati say this is a reason to not liberalize the financial markets with respect to foreigners?