

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) For each of these events, determine what happens to M1, M2, and M3.

Explain your logic.

A) You transfer \$1000 from a CD to your checking account.

B) You pay your Bethany College tuition with a check.

C) You take a car loan for \$5000.

2) (20 points) Back in 2000, the required reserve ratio in Russia was 20%. The book gives one good reason for it to be that high and one bad aspect of its being so high. Explain both the good and bad aspects of such high a required reserve ratio. (Now it is at the stupid level of 0% - 3% depending upon the type of account and who owns the account.)

3) (25 points) What is the big advantage of a free-floating exchange rate? What is the big disadvantage of that type of exchange rate regime? Should a developing country have a free-floating exchange rate? Explain your logic.

4) (10 points) We do not discuss what is in M3. What do you think are two general properties items in M3 have? Explain your logic.

5) (15 points) In *Principles of Macroeconomics*, we say that the two major costs of inflation are shoe-leather costs and menu costs. What are they? Which is not a problem in hyperinflation? Explain your logic.