

The Last One!

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up 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.

If you are leaving early for Thanksgiving break, turn this in before you leave.

- 1) (15 points) Define *adverse selection*. Give an example from insurance to explain your definition.
- 2) (10 points each) For each of the following events, determine what happens to M1 and M2. Briefly explain how you reached that conclusion. Answer each part in separate paragraphs.
 - A) You move \$200 from a CD to your checking account.
 - B) You pay \$400 for a textbook using a check.
 - C) You pay \$30 for a hat using a credit card.
- 3) (15 points) Define *moral hazard*. Explain how the FDIC can cause a moral hazard problem for the banks.
- 4) (20 points) Draw the supply and demand for money. Illustrate the effects of an increase in the money supply caused by the Fed buying bonds. Explain why the curve(s) moved as drawn. What happens to the money supply and interest rates? Without drawing the diagram, explain how this would affect the SRAS/LRAS/AD diagram.
- 5) (20 points) Draw the supply and demand for money. Illustrate the effects of an increase in GDP caused by an increased in government spending. Explain why the curve(s) moved as drawn. What happens to the money supply and interest rates? What problem that we discussed before Exam #4 is referring to? Briefly explain your logic.