

If you are leaving campus early, slide it under my office door before you leave.

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 10 points. 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) According to the article below, Tide detergent has been used as money. Do you think it is a good money? Talk about two of the four requirements of a good money and discuss whether or not Tide fits those.

[https://www.syracuse.com/news/2012/03/tide\\_detergent\\_has\\_become\\_hot.html](https://www.syracuse.com/news/2012/03/tide_detergent_has_become_hot.html)

2) (20 points) What is *adverse selection*? Explain how banks reduce that problem.

3) (10 points each) For each event, tell me what happens to M1, MZM, and M2? Briefly explain your logic. Answer each part in separate paragraphs.

A) You move \$300 from your checking account to your savings account.

B) You pay for a \$50 item of clothing, with a check from your money market account.

C) You pay for a \$20 meal with a credit card.

4) (20 points) Draw the MS/MD diagram. Illustrate the effects of an increase in GDP. Explain why the curve(s) moved as drawn. What happens to interest rates and the amount of money?

5) (20 points) Draw the MS/MD diagram. Illustrate the effects of the Fed buying bonds on the open market. Explain why the curve(s) moved as drawn. What happens to interest rates and the amount of money?