

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. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

- 1) (15 points) What is the economic reason that the current budget deficit is so hard to balance by cutting spending?
- 2) (15 points) Can we balance the government's budget by taxing the rich? Explain your logic.
- 3) (10 points each) For each of the following, determine what happens to M1 and M2. Explain your logic.
 - A) You take \$120,000 from one CD and put it in your checking account.
 - B) You pay the book store \$104,000 for your books using a check.
 - C) You pay the book store \$94,000 for your books using a credit card.
 - D) You take \$50 cash out of your savings account.
- 4) (15 points) What is financial intermediation? Why do we do that?
- 5) (15 points) Suppose that a new account was created. You could use your debit card to withdraw from it no more than once a week. It pays interest a little bit better than a savings account. If you were in charge of classifying it, would you call it M1 or M2? Why did you make that choice?