

Do not put your name anywhere on the assignment, other than on the back of this sheet of paper. 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 do double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) Explain $M^d/P = L(Y, r + \pi^e)$.

2) (10 points) Explain the difference between *unit of account* and *medium of exchange*.

3) (15 points) Some economists have proposed using weighted money aggregates. If you were in charge of determining the weights, what percentage of a savings account would you put into M1 and what percentage would you put into M2? Explain your logic.

4) (20 points each) For each of the following events, determine what people would do with their money. How would that affect M1, M2, and M3? Explain your logic.

A) Interest rates on bonds increase.

B) ATMs make money in M2 more liquid than before.

C) Stocks become less risky.