

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.

I am sorry to report that there is no equation to explain this week. I know you are disappointed by this; therefore, I will have an equation for you to explain on the next assignment.

- 1) (20 points each) Illustrate the following events on separate real MS/real MD diagrams. Explain why the curves moved as drawn. Determine what happens to the quantity of money and the interest rate.
 - A) GDP increases.
 - B) The Federal Reserve buys bonds on the open market.
 - C) The price level increases.
 - D) Non-money financial assets become more liquid.

- 2) (20 points) Which interest rate (real or nominal) should be on the axis of the real MS/real MD diagram? Explain your logic. (Some books do as your book does, but some books use the other interest rate, so I am trying to get you to think about it and come to a conclusion.)