

Place your name on the back of this sheet of paper and nowhere else. 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 use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (25 points) Explain  $MD=P*L(Y, r, \pi^e, i^M, \text{Wealth, Risk of other assets, liquidity of other assets})$
- 2) (10 points each) For each of the events, determine what happens to M1 and M2. Explain your logic.
  - A) You take \$400 cash out of your savings account.
  - B) You pay your tuition with a check.
  - C) You pay for a \$300 textbook with a credit card.
  - D) You transfer \$2000 from a checking account to a CD.
  - E) You take a \$100,000 mortgage to buy a house.
- 3) (25 points) Is M1 or M2 a better store of value? Explain your logic. Is M1 or M2 a better unit of account? Explain your logic.