Wilf Csaplar Jr.   Economics 302   Homework #7   **Due Thursday 3/31**

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) (15 points) Explain $MD/P = L(Y, r, \pi^e)$

2) (10 points each) For each of the following events, determine what happens to M1 and M2. Explain your logic.
A) You transfer $400 from a savings account to a checking account.
B) You take $30 cash out of your checking account.
C) You pay for a $50 pair of pants with your credit card.
D) You pay for your $300 of textbooks with a check.

3) (15 points) Is M1 or M2 a better store of value? Explain your logic. Which is a better medium of exchange? Explain your logic.

4) (10 points each) For each of the following events, explain how it affects the real money demand and why it has that effect.
A) The risk of other assets increases.
B) Our payment system has become more efficient over time.
C) Wealth increases.