

The Last One!

All parts of the assignment will be turned in at the end of the lab. 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 10 points. 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) (20 points) What are the two costs of inflation? Which one actually shrinks when you get to hyper-inflation? Explain why that one gets smaller.
- 2) (10 points) What happens to the money supply when a bank makes a loan? Explain your logic.
- 3) (15 points) Why do most developing countries have some sort of pegged exchange rate? What is the disadvantage of a peg compared to a floating exchange rate?
- 4) (15 points) How does increasing interest rates help to control inflation?
- 5) (10 points) What is meant by “shallow finance”? Why is it bad?
- 6) (15 points) Explain how a large required reserve ratio will cause shallow finance.
- 7) (15 points) Explain how an interest rate ceiling will cause shallow finance.