

If you are not in the classroom with me, you must be on Zoom with both your camera and microphone on.

Do NOT write your name anywhere. (Canvas will tell me who turned in the exam.) Take pictures of your answers and use your own app or one of the pages I have links to on my home page to create a PDF for each answer which requires an upload. If it is large, resize it to A4. Upload that to Canvas. Upload each answer as a separate file with that question. Failure to follow directions will cost you one point. People with Apple products may need to use CamScanner app.

You are not allowed to use your books, notes, the internet, or other people when taking this test.

You can use the internet to access Canvas and to convert your answers to PDF files. Nothing else.

If you run out of time or lose your internet connection, you can do a second submission. You do NOT have to redo the questions you already did. I will be able to see every submission. If you have problems, you can always contact me via Zoom or e-mail.

Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I have it set up to only give you an hour and a half.

1) (12 points) For EITHER *open market operations* OR *the required reserve ratio*, explain how the Fed can use it to decrease the money supply.

2) (12 points) Answer EITHER Part A OR Part B.

A) When interest earning checking accounts were created, people were not sure if they should be in M1 or M2. Explain why they might fit into M1 and explain why they might fit into M2.

B) There are three components of money demand (not to be confused with the four functions of money). One of those components is precautionary demand. For ONE of the other two, name it and explain whether M1 or M2 would be better at that. Why did you choose that category of money?

3) (12 points) Answer EITHER Part A OR Part B.

A) Explain how an increase in the money supply will affect the LRAS/SRAS/AD diagram. There is no need to draw the graph. Just tell me which graph moves, which direction it moves, and why it moves that direction.

B) I drew the money demand curve differently from the book. Draw it the way I drew it and explain why it takes that shape.

4) (12 points) Answer EITHER Part A OR Part B.

A) Explain the difference between the *full employment budget* and the actual budget.

B) According to the Bureau of Labor Statistics, The unemployment rate in 2019 hit 3.5%. Based solely on that number, should the government have had a budget deficit or a surplus? Explain your logic.

5) (16 points) Answer EITHER Part A OR Part B.

A) What is *moral hazard*? How does using a financial intermediary reduce that problem?

B) What is the FDIC? Explain how its existence can EITHER cause a *moral hazard* problem OR a *adverse selection* problem?

6) (18 points) Answer EITHER Part A OR Part B.

A) Draw the MS/MD with a Keynesian liquidity trap. Use it to prove that if that situation exists, then increasing the money supply won't affect the GDP.

B) Draw the MS/MD diagram. Illustrate the effects of an increase in government spending. Explain why the curve(s) moved as drawn and how that could lead to crowding out.

7) (18 points) Answer EITHER Part A OR Part B.

A) One of the problems caused by the large government debt is the fact we owe some of it to foreigners. Why is that a problem? Is that a problem caused by *gross national debt*, *net national debt*, or the debt Paul O'Neill discussed? Explain your logic.

B) One of the problems caused by the large government debt is crowding out. What is that and why is it a problem? Is that a problem caused by *gross national debt*, *net national debt*, or the debt Paul O'Neill discussed? Explain your logic.