

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

1) (20 points) We have two different supply and demand for money. One is the supply and demand for loanable funds, and the other is the supply and demand for liquid assets. Which one determines the interest rate, or do both combined determine the interest rate? If one rather than the other determines the interest rate, explain why you chose that one. If both combined determine the interest rate, then explain how the two are inter-related.

2) (10 points each) For each event below, determine what will happen to M1, M2, and M3. Briefly explain your logic.

A) You move \$1000 from your checking account to a certificate of deposit (CD).

B) You buy a \$15 compact disk by Less Than Jake with your credit card.

3) (20 points) Explain the equation  $M = f(Y, i)$ .

4) (25 points) Illustrate on the supply and demand for liquid money, an increase in the GDP. Explain why the curve(s) moved as drawn.

5) (15 points) Give an example of how money can be used as a medium of exchange, but not the unit of account. Briefly define *unit of exchange* and *unit of account*.