

The Last One!

Do NOT write your name anywhere. (Canvas will tell me who turned in the assignment.) All answers must be typed, except for mathematics and graphs. Take pictures of your written answers and use your own software or to create a single PDF size A4 or 8.5" x 11". At the top of my [webpage](#), I list several online sources which will convert pictures to pdfs, merge pdfs, and resize them. However, Apple phones may require using [CamScanner](#) before using the online sources. Failure to follow these directions will cost you 10 points.

If you are a Senior taking *comps*, then you will take Exam #4 on either 4/15 or 4/16. You do not take either part of the final. You do have to do this assignment.

1) (15 points each) Answer each part in separate paragraphs. For each part, determine what happens to M1 and M2. Explain your logic.

A) You move \$100 from your savings account to your checking account.

B) You deposit \$20 cash into your money market account.

C) You pay for \$25 shirt with a check.

D) You pay for a \$40 pair of pants with your credit card.

2) (15 points) What is *adverse selection*? Give an example of it to explain what you mean.

3) (15 points) One of the functions of money is *medium of exchange*. Does M1 or M2 do a better job at that? Explain your logic.

4) (10 points) Since the items in M1 are more liquid than the items in M2, why would anybody hold any money in M2? Explain your logic.