

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.

I noticed that because of breaks, if this homework was due on the date listed in the syllabus, it would cover 1 class of material and the next homework would cover 4 classes of material. Therefore, I changed its due date. The changes to the syllabus are posted below.

3/22	Exam #3 Chapters 5 - ¼ of 7	3/24	Break	3/26	Chapter 7
3/29	Review Exam #3	3/31	Chapters 7 & 8	4/2	Chapter 8 HW #7 Due
4/5	Break	4/7	Chapter 8	4/9	Review HW #7 Chapter 8

1) (15 points) Explain the equation below. You can treat each of $\Delta M/M$ and $\Delta Y/Y$ as single

variables.
$$\pi = \frac{\Delta M}{M} - \eta_Y \frac{\Delta Y}{Y}$$

2) (15 points) In the equation for the quantity theory of money, why do we assume that the velocity of money is constant?

3) (25 points) Over the past 60 years V_1 has both grown and become unstable, but V_2 has remained relatively constant. What has caused V_1 to grow? Why has it had that effect? What has caused V_1 to become unstable? Why has it had that effect? Why doesn't your logic for those two parts apply to V_2 ? Explain your logic.

4) (15 points) What is the problem with using the quantity theory of money to predict the short-term effects of an increase in the money supply? Explain your logic.

5) (15 points) The definition of the business cycle has the word "comovement". What does that mean? Why is it important?

6) (15 points) The definition of the business cycle has the word "persistent". What does that mean? Why is it important?