About the Q33 in Quiz of Week 4

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YU JIAKAN · a day ago %

Hi! Everyone and Professors!
I have a question about the Q33 in Quiz of week 4.

It asked that Suppose the Federal Reserve wants to close a recessionary gap of $100 billion and the reserve requirement is 20%. How much money will it have to create to close this gap?

According to the formula given in the lecture, I think the answer should be 20 billion. But the system said I am wrong. Is the answer wrong or me?

Wish to hear the comment from you!

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    Andy Sze · a day ago %

If your answer is $20b, the question should change to "How much cash deposit money the Fed needs on hand in order to close the recessionary gap of $100b?"

    Gap = Cash Deposit x Money Multiplier

 $100b = Cash Deposit x 5   (MM =1/RR = 1/0.2= 5)

      Cash Deposit = $20b

How much money will it have to create to close this gap? That is the $100b money supply the Fed wants to increase/create in order to close this recessionary gap.

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Lilian Nio Lie [Signature Track] · 3 hours ago %

Here is my answer and explanation posted in another thread:

To close a recessionary gap you need more information from the Aggregate Demand and the Aggregate Supply variables, such as consumption, investment and exports, besides the increase in the money supply and the fall in interest rates.
Therefore, there is one correct answer in the question.
Question 34 will help you to understand better.

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Lilian Nio Lie   Signature Track   · 3 hours ago ⚲

Please note that $ 20b is only the amount of the money supply. So to close $100b of the recessionary gap you need more information. This is a hint, did you get it?

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Andy Sze · 2 hours ago ⚲

Please note that what is the MM for the money creation. Also what is RR only when you have the cash at bank. Then by using the formula to get your number in order to increase the money supply to $100b and close the recessionary gap.

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Lilian Nio Lie   Signature Track   · 6 minutes ago ⚲

Andy,
Only money creation is not sufficient for the closing of the recessioary gap. I gave a hint.
Please see question 34, It contains the answer for question 33, if you select the right answer.
I´m affirming this because I got 2 right answers for both, but I´m not allowed to post the answers, because of the Coursera Honor Code. So, I suggest you to read and re-read the 2 questions to find the right answers, or go back to the vídeos (as I often do).

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