

# Quiz 3

## Question 1

The Coinage Act of 1873 demonetized silver as legal tender in the United States. This effectively shrank the money supply.

- a. Write out the income velocity of money equation. Describe what each variable in the equation means.
- b. Assuming there were no changes in the velocity of money or growth in gdp, what happened to prices after the Coinage Act of 1873.

## Question 2

Suppose a money demand function  $(M/P)^d = \frac{1}{10}Y$ .

- a. What is the velocity of money?
- b Suppose the money stock is \$20, what is the value of nominal GDP?

## Question 3

- a. Write down the Fisher equation and explain what each variable is.
- b. In the case where expected inflation is greater than actual inflation, explain the effects between creditors and debtors.

## Question 4

What are the three functions of money?

## Question 5

Assets		Liabilities + Equities	
Reserves	\$100	Deposits	\$1000
Loans	\$1000		
Securities	\$400	Owner's Equity	\$500

- a. What is the reserve-deposit ratio?
- b. Using the reserve-deposit ratio you found in a, what is the amount of money that can be created from the current level of deposits?
- c. What is the leverage ratio of this bank?
- d. In percentage terms, how large would a shock to assets need to be to completely erode owner's equity?
- e. Suppose that \$500 in currency is deposited into the above bank. What is the immediate effect on M1?
- f. Suppose the bank desires to not hold any excess reserves. How much additional money can be created from the new deposit?