Group Work X

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Q1: from Chapter 5, the real money supply (the left side) must be equal to the real demand for money (the right side): $\frac{M}{P} = YL(i)$. Let's use the following form for the right side: $YL(i) = 2Y - 8000i$, meaning $\frac{M}{P} = 2Y - 8000i$

(1) If $Y = 1000, i = 0.2$, what is the real money demand? What is real money supply?

(2) Given Y, what is the relationship between the real money supply $\frac{M}{P}$ and the interest rate i?

(3) If, as a result of the introduction of credit cards, the real demand for money halves, meaning $\frac{M}{P} = \frac{1}{2}YL(i)$. Given $Y = 1000$ and the real money supply you have obtained in the previous part, what must the interest rate be in the **short run** equilibrium? Keep in mind that in the **short run,** P **does not change**

(4) Given output Y, does the relation you found in part 2 still holds?

(5) In the **medium run,** P **can change**. Given output Y, interest rate i, nominal money supply M, after the real demand for money halves, how must P adjust in the **medium run** equilibrium?

(6) Does the **positive relation** between the **money supply** and the **inflation** in the medium run still hold?