In-class Bonus 2

Given:

1. The Fed supplies 1 trillion dollars.

2. The Nominal GDP is $Y trillion.

3. The liquidity function is given as $L(i) = \frac{1}{0.1+i}$

Questions:

1. Is $L(i)$ a decreasing function of i?

2. If $Y goes up by 0.01 unit, how would the equilibrium interest rate change?