In Class Assignment #1
Macro Economics

Institute for Financial Management & Research (Batch: 2019-21)

03 October, 2019

Maximum Points: 10 **Duration**: 30 minutes

You learnt about the money multiplier in the class on financial markets. Assume the following: The public holds no currency. The ratio of reserves to deposits is 0.1. The demand for money is given by

$$M_d = Y \cdot (0.8 - 4i)$$

Initially, the monetary base is ₹100 billion, and nominal income is ₹5 trillion.

1. (2 points) What is the demand for central bank money?
2. (2 points) Find the equilibrium interest rate by setting the demand for central bank money equal to the supply of central bank money.
3. (2 points) What is the overall money supply? Is it equal to the overall demand for money at the interest rate you found in question 2?
4. (2 points) Compute the change in interest rate when central bank money is increased to ₹300 billion.
5. (2 points) When overall money supply goes up to ₹3,000 billion, compute the change in interest rate.