Problem 1. What is the definition of demand for money?

(a) The amount of money people are willing and able to hold

(b) The amount of money people are willing to hold

(c) The amount of money people are willing to borrow

(d) The amount of money people actually hold

(e) None of the above

Problem 2. What is the definition of supply of money?

(a) The amount of money that people are willing and able to lend out

(b) The amount of money printed by the government

(c) The amount of money held in reserve by banks

(d) The amount of money that the non-bank public actually hold

(e) None of the above

Problem 3. Fred's total wealth is equal to \$130,000. He is currently holding \$60,000 of his wealth in money and wants to hold \$90,000 in bonds. Fred has

(a) excess demand for bonds equal to \$20,000

(b) excess supply of bonds equal to \$20,000

(c) excess demand for bonds equal to \$40,000

(d) excess supply of bonds equal to \$40,000

(e) none of the above.

Problem 4. What is the best way to characterize the **classical theory** of demand for money?

(a) According to classics, people hold money because they cannot afford buying stocks and bonds

(b) According to classics, people hold money mostly for unforeseen future transactions

(c) According to the classical economists, people hold money predominantly to buy goods and services

(d) Demand for money is the amount of reserves bank are willing and able to hold at the Fed.

Problem 5. Keynes argued that

(a) The classical economists had neglected the function of money as a medium of exchange

(b) Classical economists had neglected the function of money as a unit of account

(c) The classical economists had neglected the function of money as a store of value.

Problem 6. Which of the following statements is correct?

(a) If, all else the same, the price level increases by 5%, then the demand for money will increase by 5%.

(b) If, all else the same, real GDP increases by 5%, then the demand for money will increase by 5%.

(c) If, all else the same, the nominal GDP increases by 5%, then the demand for money will increase by 5%.

(d) Any of the above is a correct answer.

(e) None of the above.

Problem 7. According to Keynes, what will happen if the interest rate increases, all else the same?

(a) Demands for both money and bonds will decrease

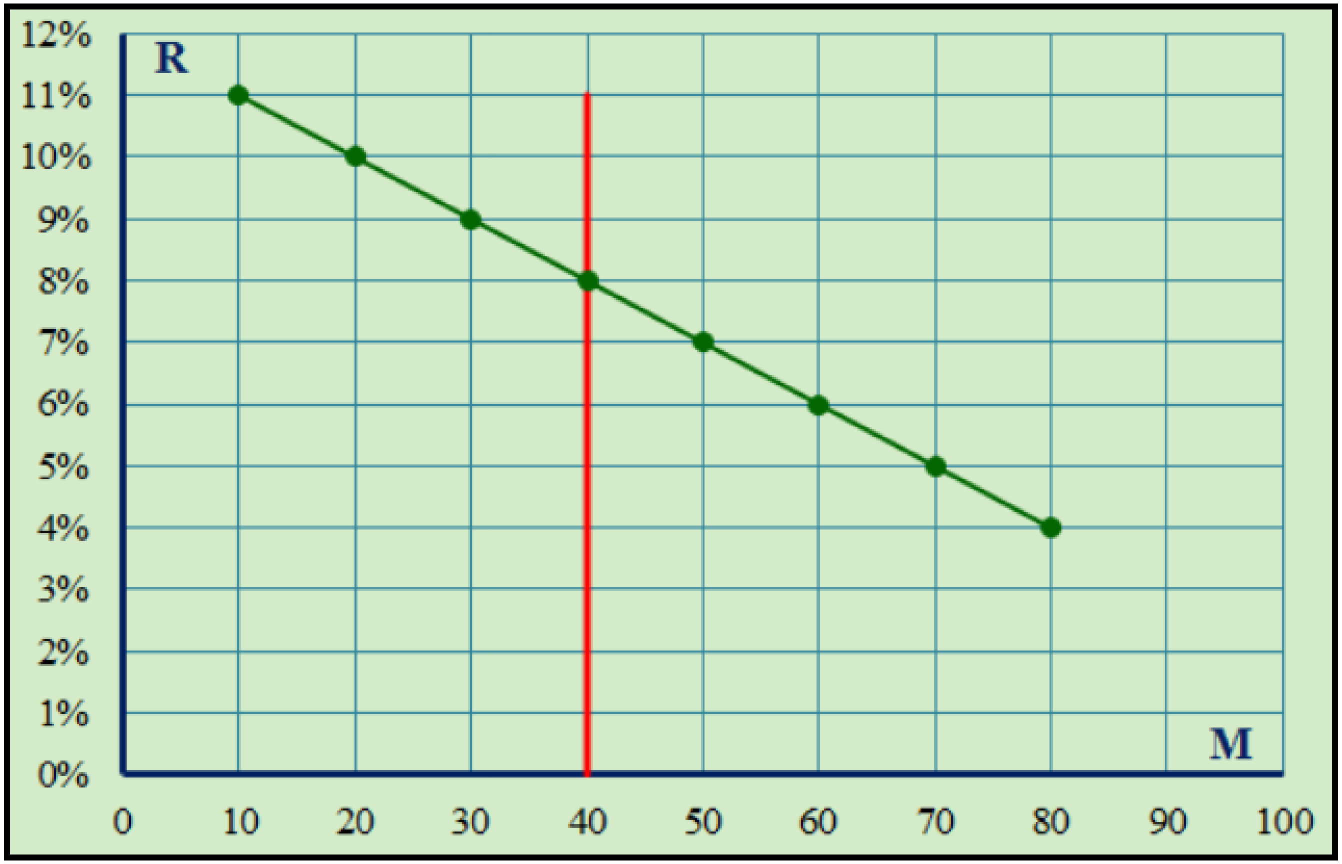
(b) Demands for money will increase but demand for bonds will decrease

(c) Demands for both money and bonds will increase

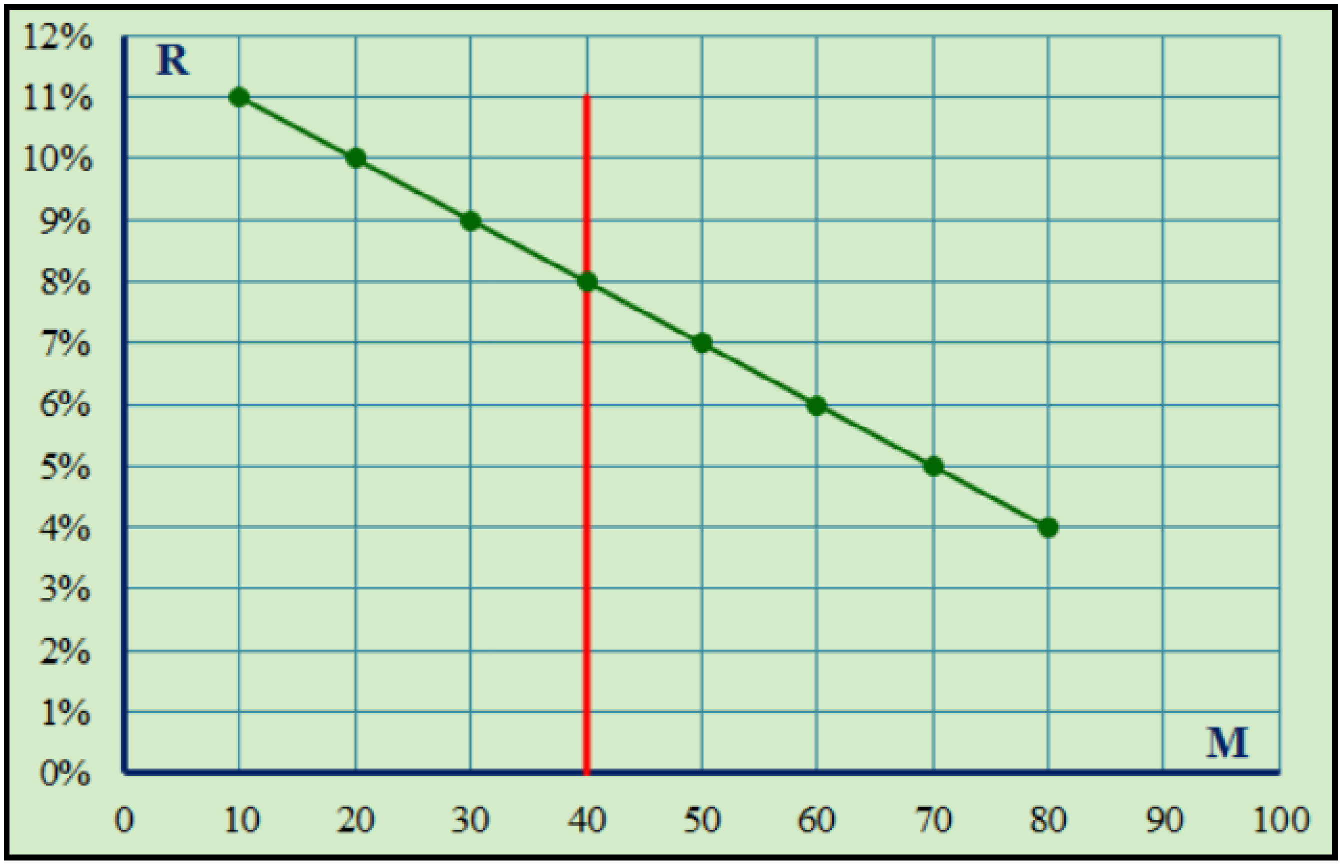
(d) Demand for money will decrease but demand for bonds will increase

(e) None of the above

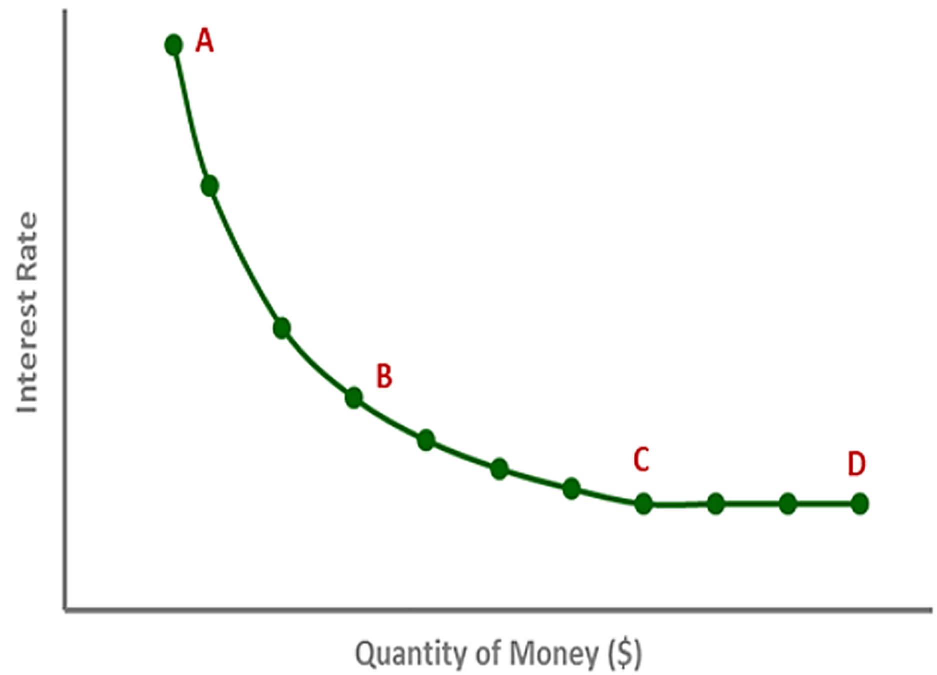
Problem 8. Consider the money market graph below. If the level of prices or real GDP fall by 50%, then find the new equilibrium real interest rate.



Problem 9. Consider the money market graph below. If the Fed increases the supply of money by 50% through an open market purchase, and at the same time the nominal GDP increases by 100%, then what's the new equilibrium interest rate?



Problem 10. Consider the demand-for-money function below.



Which segment is called "liquidity trap"?

(a) AB

(b) BC

(c) CD

(d) AC

(e) None of the above