Problem 1. Match things.

(a) store of value

(b) fiat money

(c) medium of exchange

(d) unit of account

(e) commodity money

(i) the function of money that refers to money's usefulness as an asset

(ii) type of money that has no intrinsic value, but is still used as a means of payment

(iii) function of money that allows the avoidance of the double coincidence of wants problem associated with barter, i.e. facilitates transactions

(iv) function of money that allows prices to be easily expressed according to a standard measure

(v) type of money that has other uses besides serving as money, and thus has intrinsic value

Problem 2. Given the following components of the money supply, find M1 and M2.

currency	3
travelers' checks	1
demand deposits	6
savings deposits	10
small denomination time deposits	30
individual money market mutual funds	50

Problem 3. Abigail withdraws $100 from her savings account and deposits it in her checking account. As a result

(a) M1 remains unchanged, M2 decreases

(b) M1 remains unchanged, M2 increases

(c) M1 decreases, M2 remains unchanged

(d) M1 decreases, M2 decreases

(e) None of the above

Problem 4. Match even more! Do it!

(a) discount loan

(b) discount rate

(c) required reserve ratio

(d) open market operations

(e) federal funds loan

(f) federal funds rate

(i) money banks borrow from the Fed

(ii) the rate of interest charged on loans made by the Fed discount rate

(iii) a fraction of demand deposits banks are required not to loan out required reserve ratio

(iv) the Fed's purchases and sales of government bonds

(v) money banks borrow from other banks overnight

(vi) the rate of interest charged on federal funds loans

Problem 5. Match match match match? Match match match match.

(a) balance sheet

(b) required reserves

(c) excess reserves

(d) fully loaned out

(i) statement of assets, liabilities, and net worth

(ii) minimum amount of cash that banks must hold at all times

(iii) the amount of cash that banks might hold in excess of what is required by the Fed

(iv) banks are said to be this when they have no excess reserves

Problem 6. The required reserve ratio is 10%. Assume that the bank is fully loaned out. What is the bank's net worth?

Assets		Liabilities and Net Worth	
Reserves	?	Demand Deposits	300,000,000
Treasury Bonds	5,000,000	Borrowed from Fed	8,000,000
		Borrowed from Banks	7,000,000
Loans	350,000,000	Net Worth	?

Problem 7. Simply stated, all else being the same, the money supply will increase when

(a) people work and receive wages and salaries from their employers

(b) people save some of their waves and salaries and deposit those savings in their banks

(c) people spend some of their wages and salaries on goods and services

(d) banks lend money to people

(e) none of the above

Problem 8. Consider the following bank balance sheet:

Assets		Liabilities and Net Worth	
Reserves	\$20,000	Demand Deposits	\$150,000
		Other Deposits	\$650,000
Treasury Bonds	\$30,000	Discount Loans	\$20,000
		Interbank Loans	\$80,000
Loans	\$950,000	Net worth	\$100,000

The required reserve ratio is 10%. How many excess reserves is the bank holding?

Problem 9. Consider the same balance sheet. How much does the bank owe the Federal Reserve? How much to other banks?