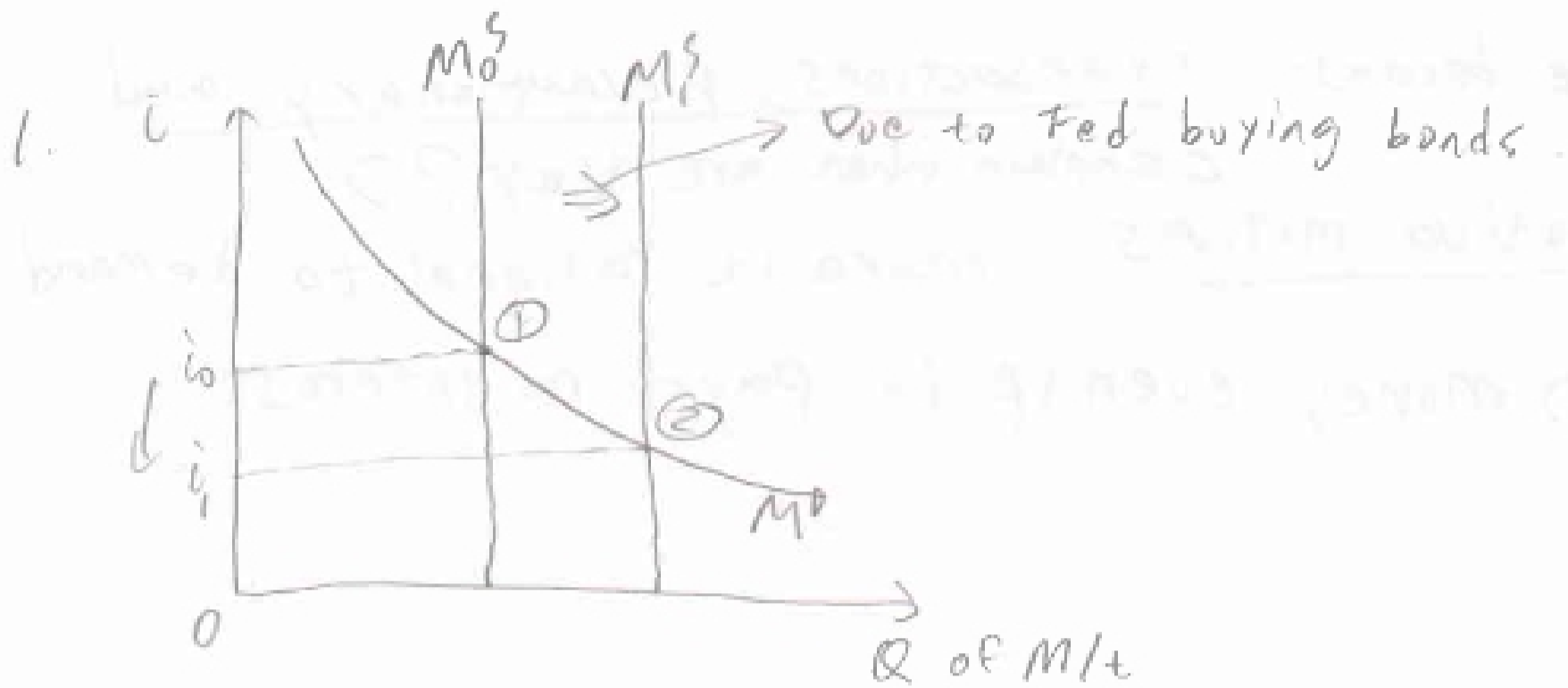


quiz 4



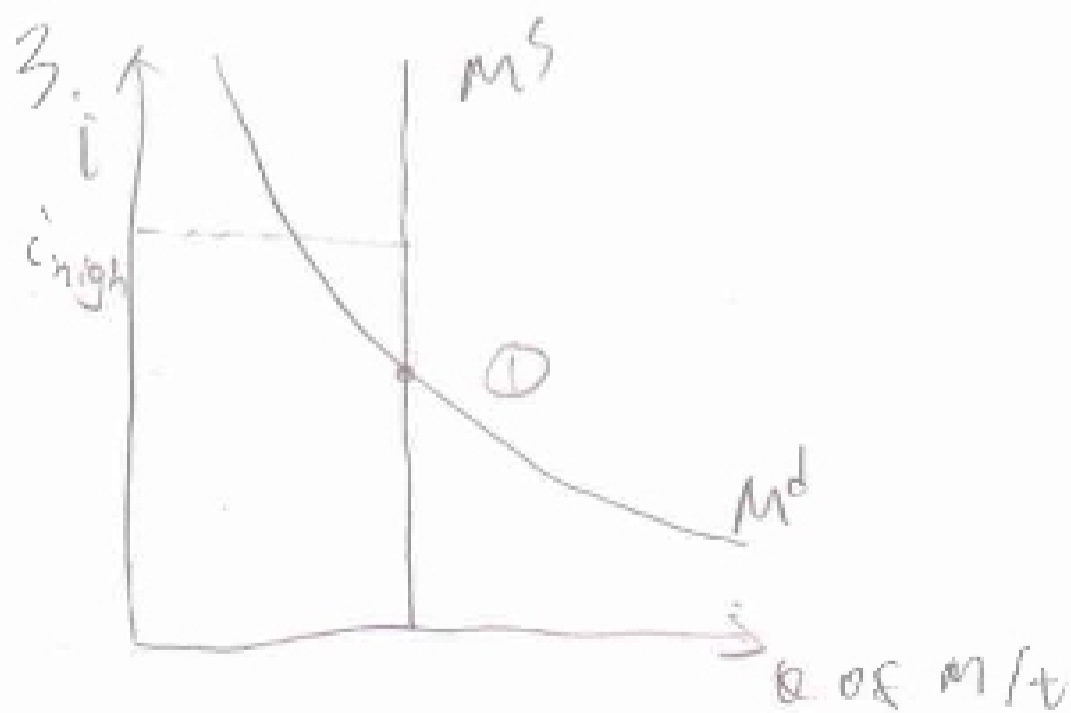
Bond prices would rise (Please explain why?)

$$2. \Delta M^s = \Delta \text{Total Reserves} \times \frac{1}{RRR}$$

$$\$5 = \$1m \times \frac{1}{20\%}$$

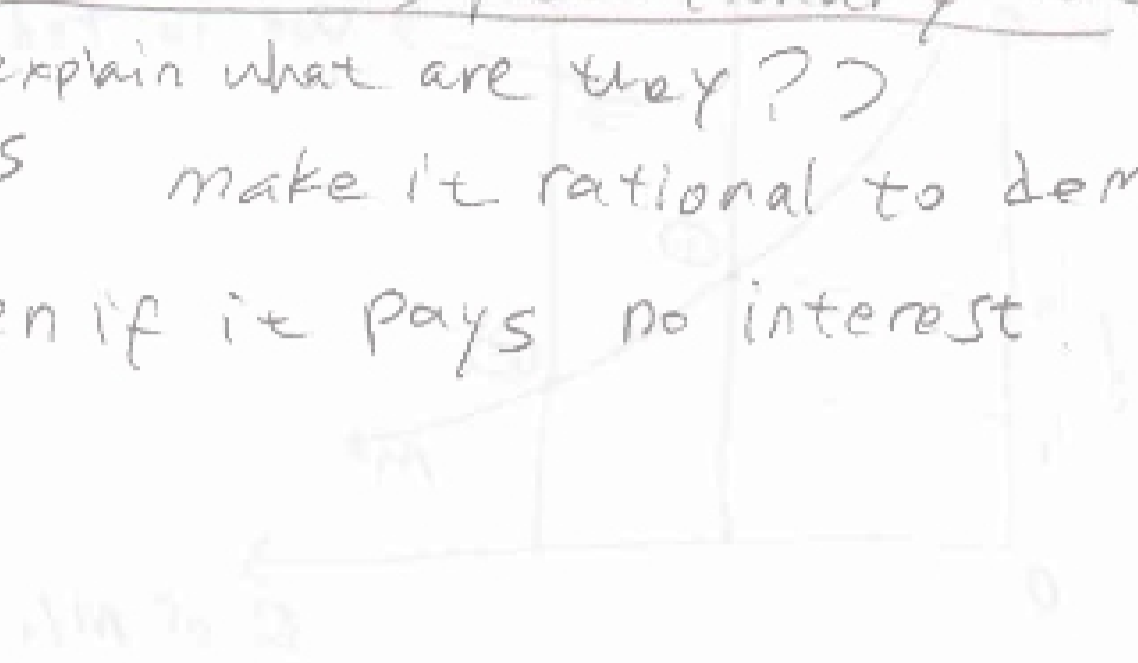
excess reserves \Rightarrow less than maximum ΔM^s .

(with some explanation)



People will use the excess supply of money to buy interest bearing assets (which raises such assets' prices and lowers i)

4. Disagree because transactions, precautionary and speculative motives explain what are they? \rightarrow make it rational to demand hold money even if it pays no interest.



$\frac{1}{2} \times \text{Total Reserve} \times \frac{1}{2}$
 $\frac{1}{2} \times M \times \frac{1}{2}$

$\frac{1}{2} \times M \times \frac{1}{2}$

$\frac{1}{2} \times M \times \frac{1}{2}$

factors will rise and fall
 level of money supply
 interest rate of money
 factors will rise and fall
 level of money supply
 interest rate of money

