

Chapter 17 Monetary Policy

What are the aspects of money that are a product of a social contract?

What are the three factors for the demand for money?

What does the interest rate represent in relationship to demand?

Why are people in Columbia willing to accept a negative real rate of interest of 3%?

What is the **direct effect** of an increase in the money supply?

What is the indirect effect of an increase in the money supply?

What is the effect of monetary expansion on the AD curve?

What is the effect on the expansion of the money supply on the SRAS? Why is this according to your text?

What happens to the price of bonds when the Fed sells bonds?

What happens to the price of Bonds when the Fed buys bonds?

How is the price of bonds related to the interest rate? Will high bond prices lead to low or high interest rates?

How will contractionary monetary policy effect AD and SRAS?

How does the FED expand or contract the money supply with the discount rate?

How does the Fed expand or contract the money supply with the reserve rate?

Expansionary monetary policy causes interest rates to fall, what effect will this have on the dollar and foreign trade balance (e.g. will it strengthen or weaken the dollar, and will it lead to increases in exports or imports?)

How will the expansion of monetary policy affect an economy in a contractionary gap?

What is the equation of exchange?

According to the Crude Theory of money if the Velocity of money is constant and GDP is stable, an increase in the money supply will do what to prices?

What does the research show about the relationship between monetary growth and the rate of inflation in the long run?

What are the steps in the Keynesian transmission mechanism?

What is the monetarist's criticism of the Keynesian view of monetary policy?

How do Monetarists believe that money expansion should take place?

Why can't the Fed simultaneously set targets for money supply and interest rates?

According to your text, when should the Fed target money supply and when should it target interest rates?

What is Milton Friedman's critique of monetary policy?