

Part I - Definitions. Define each of the following (3 points each, 18 points total).

1. Discount rate
2. Member bank
3. Excess reserves
4. Federal funds rate
5. Double coincidence of wants
6. Borrowed and non-borrowed reserves

Part II - Short Answer. Answer each of the following questions (9 points each, 36 points total).

1. How do ex-ante real interest rates and ex-post real interest rates differ? Of the two real rates, which is the most important for understanding economic decisions?
2. What properties should money have to be useful as a medium of exchange?
3. Who is on the FOMC? What does the FOMC do?
4. (a) Explain why the demand curve for reserves slopes downward. (b) Use the supply and demand model for reserves to explain and illustrate how an open market operation to buy bonds affects bank reserves and the federal funds rate.

Part III – Essays and problems. Answer THREE of the following questions (15 points each, 45 points total)

1. Describe the structure of Federal Reserve districts and Federal Reserve banks. Describe the structure and functions of the Board of Governors of the Federal Reserve System.
2. How independent is the Fed? What factors contribute to independence? What factors work against independence? Discuss arguments for and against the independence of the Fed.
3. What is the purpose of the discount window? Explain and illustrate using graphs how the Fed operates the discount window and how it limits the amount the federal funds rate can rise on any given day.
4. What are the three tools available to the Fed for controlling the money supply? Use t-accounts to show how the Fed can affect the monetary base with each of the three tools (you don't have to carry out the multiple deposit creation process, just show that MB is affected).