

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

1. Fractionally backed currency
2. Discount window
3. Type C director
4. Federal funds rate
5. Margin requirement
6. Bank reserves

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

1. List and briefly explain the properties money must satisfy in order to be useful.
2. Explain the difference between ex-ante and ex-post real interest rates. Which is most important for understanding economic decisions? Explain briefly
3. Who is on the FOMC? What does the FOMC do?
4. (a) Explain why the demand curve for reserves slopes downward. (b) Explain the shape of the supply curve for reserves.

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

1. 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.
2. Describe the evolution of money from barter to fiat money. How did paper money arise?
3. Describe the structure and function of the Board of Governors of the Federal Reserve System. How has the power structure of the Federal Reserve System shifted over time?
4. Who determines the value of the money multiplier? Explain. How stable is the money multiplier? How is the monetary base determined and how well can the Fed control it? What do the stability of the multiplier and the Fed's ability to control the monetary base tell us about the Fed's ability to control the money supply?