Economics 470/570 **Name: ________________________________**
Fall 2008 **(1 point if name is on *all* exam pages)**
Midterm #1

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

1. Fractionally backed currency
2. Multiplicity of prices
3. Direct and indirect finance
4. Monetary base
5. Federal funds rate
6. Borrowed and non-borrowed reserves

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

1. What are the three functions of money? Does the theoretical definition of money result in a broad or narrow measure of the quantity of money in circulation? Explain briefly.

2. How do member banks differ from other banks? How did the difference change in 1980?

3. Who is on the FOMC? What does the FOMC do?

4. Describe the structure of Federal Reserve district banks.

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

1. Explain how financial intermediaries increase efficiency through (a) pooling risk, and (b) allowing long-term loans to be made with short-term deposits. (c) How do financial intermediaries reduce transactions costs?

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. Describe the evolution of money from barter to fiat money. How did paper money arise?

4. Does the Fed have better control over the monetary base or bank reserves? Explain using t-accounts. Can either of the two be controlled perfectly? What does this imply about control of the money supply?