

**Economics 470/570**  
**Fall 2010**  
**Midterm Exam**

**Name:** \_\_\_\_\_

**Part I - Definitions. Define each of the following (4 points each, 20 points total).**

1. Direct and indirect finance
2. Type C directors
3. Federal funds rate
4. Monetary base
5. Equation of exchange

**Part II. Answer each of the following questions (16 points each, 80 points total).**

1. How do financial intermediaries, through their ability to pool resources promote more efficient use of financial resources? Be sure to cover risk pooling, the pooling of small investors, and pooling over time in your answer.
2. (a) What properties should money have to be useful as a medium of exchange? (b) Why is there more than one definition of the money supply? Are data on money reliable? (c) Suppose the reserve requirement is 10%, there is \$5,000 in bank reserves in the system, and there is no currency or excess reserves. What is the money supply?
3. (a) Describe the structure and function of the Board of Governors of the Federal Reserve System. (b) Who is on the FOMC? What does the FOMC do?
4. (a) Discuss the speculative motive for holding money in Keynes liquidity preference theory. How do the individual and aggregate speculative money demand curves differ? (b) Briefly describe Baumol's contribution to the theory of money demand.
5. (a) Describe the three traditional tools available to the Fed for controlling the money supply. (b) Explain and show graphically how the Fed can use discount rate policy to act as a lender of last resort and limit the amount the federal funds rate can rise.