

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

1. FOMC
2. Monetary base
3. Excess reserves
4. Federal funds rate
5. Double coincidence of wants
6. Unit of Account

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

1. How is money measured? Why is there more than one definition of the money supply?
2. Explain why the multiplier falls when people hold currency or when banks hold excess reserves
3. Write down the government budget constraint and explain each term.
4. Why is it unusual for the president to have picked all seven members of the Board of Governors?

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

1. What are the functions of money? Relative to a barter economy, what problems are overcome by the use of money? What properties must money satisfy in order to be useful?
2. Suppose that the Fed injects \$100,000 in reserves into the banking system. Assuming that the required reserve ratio is 10%, use t-accounts to illustrate the multiple deposit creation process. Use this to obtain the simple deposit multiplier.
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. Does the Fed have better control over the monetary base or bank reserves? Can either of the two be controlled perfectly? Explain. What is the money multiplier? Can the Fed control the money supply perfectly?