Econ 2020 Homework 5

Homework assignments are optional – there is no penalty for not completing an assignment.

If you like, you can work with other students in the class. Just turn in one assignment per group and include all names (assuming you have the same TA).

Each student can earn up to 2 points per homework. The points will be added to the highest of the first two exam scores.

You can turn in the work at the beginning of class or send the homework to your TA by email.

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The deadline to submit your work is Tuesday, April 11th.

If you have any questions, please ask at the beginning of class.

In class we covered a restrictive monetary policy. This homework covers an expansionary monetary policy to lower interest rates. Assume the textbook presentation where monetary policy works without any problem. Except for question 1, your answers can be a single word.

1) Give a brief summary of the macroeconomic circumstances that would lead the Federal Reserve to engage in an expansionary policy.

2) Would the Fed buy or sell government debt assets with banks?

3) Would bank reserves increase, decrease or no change?
4) Will the monetary base increase, decrease or no change?

5) Will the supply of fed funds increase, decrease or no change?

6) Will the fed funds interest rate increase, decrease or no change?

7) Will the yield curve shift up or down?

8) Will longer term interest rates (e.g. 10-year T-Note) increase, decrease or no change?

9) How are longer term interest rates determined?

10) In response to the change in longer term interest rates, will investment increase, decrease or no change?

11) Will the growth rate of aggregate demand increase, decrease or no change?

12) Will the growth rate of aggregate supply increase, decrease or no change?