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In-class Exercise
Market for Money

Directions: Work in groups of up to four people and answer the following questions. All papers will be collected, but only one member's paper will be randomly selected and graded and all members of the group will receive the same grade.

By signing below, you agree that the following work represents the efforts of everyone in the group, and you are willing to accept as your own grade for the group project the grade earned from this representation of your group's work.

| Signature Group Member 1 | Print Name |  | Date |
| :---: | :---: | :---: | :---: |
| Signature Group Member 2 |  | Print Name |  |
| Signature Group Member 3 |  | Print Name |  |
| Signature Group Member 4 |  |  | Date |

1. Describe and illustrate the impact on the interest rate and quantity of money if an economic expansion causes an increase in average income.
2. Describe and illustrate the impact on the interest rate and the quantity of money if the Fed makes an open market purchase of government bonds.
3. Suppose there is an improvement in financial technology that makes it easier transfer your assets from investment accounts (stocks, bonds, and mutual funds) to checking accounts. Describe and illustrate the impact on the interest rate and the quantity of money.
4. Suppose the Federal government reduces the capital gains tax rate. Describe and illustrate the impact on the interest rate and the quantity of money.
5. Describe and illustrate the impact on the interest rate and the quantity of money if people expect an increase in the rate of inflation.
6. Suppose the Fed makes an open market sale of securities it owns.
(a) Describe and illustrate the impact on the interest rate and the quantity of money.
(b) Describe of the policy above on consumer spending, savings, and borrowing.
(c) Define investment. Describe the impact of the policy above on investment demand.
(d) Describe the impact on of the policy on aggregate demand.
