ECO 301: Money and Banking
Week 12 Homework: Macroeconomic Dynamics and Monetary Policy

1. Suppose the economy is at the long-run equilibrium when the Federal Reserve conducts an open market sale of bonds. Describe and illustrate the impact on the equilibrium interest rate, real GDP, price level, wage, employment, and unemployment (remember to use sticky-wages for the short-run effect).

2. Suppose the government deregulates the financial industry, allowing banks to offer more financial services and products to consumers. Describe and illustrate the short-run impact on the equilibrium interest rate, real GDP, price level, wage, employment, and unemployment (remember to use sticky-wages for the short-run effect).

3. Suppose an economy is originally at the long run equilibrium when a drop in businesses' economic outlook leads to a decrease in investment spending.

   (a) Describe and illustrate the effects on the aggregate market for final goods and services, the market for money, and the market for labor. What is the impact on the equilibrium interest rate, real GDP, price level, wage, employment, and unemployment (remember to use sticky-wages for the short-run effect)?

   (b) Describe and illustrate an open market operation monetary policy that can remedy the effect of the recessionary shock that you illustrated in part (a). Start your illustration with the outcome you found in (a), and add the effects from your monetary policy in all three markets. What is the impact on the equilibrium interest rate, real GDP, price level, wage, employment, and unemployment?

4. Suppose the economy is originally at the long run equilibrium when an increase in global energy costs cause a widespread increase in the costs of production.

   (a) Describe and illustrate the effects on the aggregate market for final goods and services, the market for money, and the market for labor. What is the impact on the equilibrium interest rate, real GDP, price level, wage, employment, and unemployment (remember to use sticky-wages for the short-run effect)?

   (b) Trick question. Describe a monetary policy that can both reduce inflation, increase real GDP, and increase employment.