

ECO 301: Money and Banking

Week 1 Homework: Introduction to Financial Markets and Money

Directions: Provide written answers for the following questions and prompts. You may print these sheets and put your answers in the space provided or you may use your own paper to write your answers.

When you have finished, scan or take pictures of your work, combine all images to a single PDF file, and upload your work as a single PDF file to the Canvas Assignment area. There are apps available for Apple and Android mobile devices that can create PDF documents using your device's camera, including the Apple iPhone's native *Notes* app (use the *scan document* feature) and *Adobe Scan* app available for Android and Apple mobile devices. There are also free online tools such as <https://online2pdf.com/> and <https://www.easypdfcloud.com/>.

1. Define liquidity. Order the following assets from most liquid to least liquid. You can indicate ties for assets that have similar liquidity. Give a definition for each asset in your own words and describe why the asset is fairly liquid or illiquid.

- M1 money
- M2 money
- House
- Mortgage held by a bank
- 10-year sub-prime corporate bond
- 1-year prime corporate bond
- 30-day U.S. treasury bills
- Money market mutual funds
- Stock market mutual funds
- 10,000 gallons of orange juice

2. Suppose the Federal Reserve engages in monetary policy that leads to higher interest rates. Describe the expected change in desired behavior for each of the following decisions. Describe the direction of the change and provide your reasoning.
- (a) Demand for consumer borrowing
 - (b) Consumers' desire to save
 - (c) Consumer demand for goods and services
 - (d) Demand for corporate borrowing
 - (e) Investment demand (investment defined in the macroeconomic sense)
 - (f) Bank lending supply
3. Define hyperinflation. Describe at least two reasons why hyperinflation is bad for the economy. What function of money is hindered with hyperinflation?
4. Define a financial crisis. What function of financial markets are hindered during a financial crisis, and how does this affect the broader economy.