Study Guide: Midterm 2

Lecture 10
What backs the US dollar?
What are the three functions of money?
What are “fiat” and “commodity” money? What are the risks and benefits of each?
What are the components of M0, M1, M2 and the monetary base?
Are credit card balances a form of money?
Have M1 and M2 been growing in the last 30 years?

Lecture 11
What is “fractional reserve banking”?
What is the money multiplier effect?
What are the three tools that the Fed can use to control the money supply?
How does the Fed increase or decrease the money supply with open market operations?
What is the “zero lower bound”?
What are “excess reserves”?

Lecture 12
What were the origins of the US financial crisis?
What happened to banks, unemployment and household assets in the US financial crisis?
What was the Troubled Asset Relief Program?
How did monetary and fiscal policy respond to the Great Recession?
What is the “too big to fail” problem?
What is “moral hazard”?
Why would banks have an incentive to take correlated risks?
What are the long term risks associated with the fiscal and monetary responses to the recession?
What are some ways to reduce the debt to GDP ratio?
Lecture 13

What are the differences between stocks and bonds?
What are the maturity date, face value, and coupons for a bond?
How do you compute the expected present value of an asset?
What are “risk neutral”, “risk averse” and “risk loving”?
How does the expected present value of an asset relate to the price of an asset?
What are “market risk” and “portfolio risk”?
What is “diversification”?
What is the “equity premium”?

Lecture 14

How does the equity premium contribution to wealth inequality?
How did the size of the Great Depression relate to that of the Great Recession?
How did the government fiscal and monetary response in the Great Depression differ from the Great Recession?
Did the Fed’s response help or hurt the economy during the Great Depression? Why?
What is the difference between the Keynesian, Real Business Cycle and Austrian perspective’s on the business cycle?
How does the Austrian theory of the business cycle work? What are the criticisms of it?

Lecture 15

What shifts the AD curve and what shifts the SRAS curve?
What shifts the LRAS curve?
What is the AD curve downward sloping?
What are the three theories for why the SRAS curve is upward sloping?
At what level is GDP if prices are equal to price expectations?

Lecture 16

How do the following shocks affect real GDP and prices in the short run and long run: temporary demand shocks, temporary supply shocks, permanent demand shocks and permanent supply shocks?
If the Fed or government intervenes to move real GDP back to its original level in response to temporary supply or demand shocks, what tradeoffs do they face?

**Lecture 17**

What is the Phillips Curve?

How do unemployment and inflation change with a shift in AD? What about a shift in SRAS?

What is the Long Run Phillips Curve? What is the “natural rate hypothesis”?

What is “disinflation”?

What is the “sacrifice ratio”?

How does the slope of the SRAS curve affect the value of the sacrifice ratio?

What are “rational expectations”? With rational expectations is the sacrifice ratio low or high? Why?

What does the example of Germany in the 1920s suggest about the value of the sacrifice ratio?

**Homework Questions**

Section 9.3-9.5: 3, 4, 7, 9, 10, 12, 18

Section 10.1: 1, 2, 5, 7, 9, 10, 13

Section 10.2-10.3: 3, 5, 7, 8, 9, 11, 14, 18

Section 11.1-11.2: 1, 2, 3, 10, 11, 15, 16

Section 11.3-11.4: 1, 5, 8, 9, 11, 12, 18, 19

Section 12.1-12.3: 2, 6, 8, 10, 11, 12, 16, 18, 21, 22

Section 13.1-13.2: 3, 4, 6, 8, 11, 12, 13, 20

Section 13.3-13.4: 1, 4, 5, 7, 8