Midterm Examination

ANSWERS

1. We did this in class several times (also, refer to pp. 53-57 of the textbook). Note that the emphasis in this question is on telling a story, on **explaining**, to the man on the street.

2. We did in class several times. It is also addressed in the Focus box on p. 69 of the textbook.

3. I walked you through question 5 on p. 107 of the textbook. I just changed the numbers for this question.

4. We did this in class. In brief: the riskier the economic environment, all else equal, the higher are excess reserves.

5. We did all sections in class. Regarding **b,** make absolutely sure to check p. 75 of the textbook.

6. This is done on p. 80 of the textbook. Check out Figure 4-8 there. We did the *IS-LM* version of this in class.

7. We discussed this in class. Also, check Figure 4.-3 on p. 73 of the textbook.

8. Ordinarily, there will ***not*** be a change in M^s, ***unless*** the Fed chooses to buy some or all of those bonds.

9. We discussed this in class. Also, it is fully explained in the text and Focus box on pp. 99-101 of the textbook.

10. This is answered in the Focus box on pp. 59-60 of the textbook.

11. a. We did this in class. A one **percentage point** increase in i, all else equal, leads to $\$b_2$ decrease in I. **b.** An increase in G leads to an increase in Y. Under interest rate targeting, there is no change in i. So I increases by $b_1\Delta Y$. If, say, there **is** an increase in i, then if $b_1\Delta Y > b_2\Delta i$, then, **in net terms**, I increases. See also the Focus box on p. 103.

EC1. This is based on question 7, p. 84 of the textbook.

EC2. This is based on question 6, p. 65 of the textbook.

❧   ❧   ❧

Statistical Report for Midterm Grades

108	91	82
107	89	79
105	88	76
104	87	74
101	87	72
99	86	72
97	86	69
96	85	68
96	85	58
96	84	23
94	84	21
92	82	

Series: MIDTERM
Sample 1 35
Observations 35

Mean	83.51429
Median	86.00000
Maximum	108.0000
Minimum	21.00000
Std. Dev.	19.30159
Skewness	-1.774849
Kurtosis	6.672485
Jarque-Bera	38.04427
Probability	0.000000