

Questions *Macroeconomics* (with answers)

2 Money and inflation

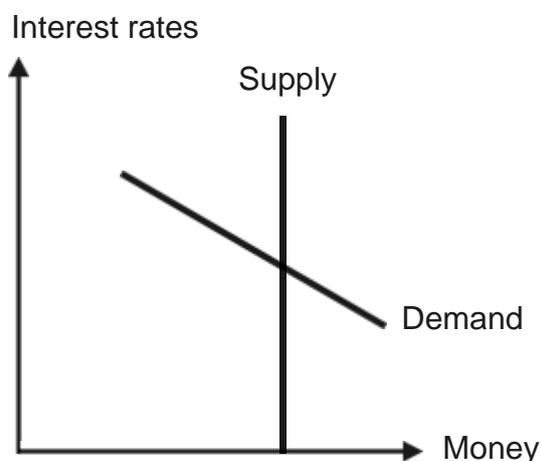
01 Money 1

Mention the functions of money.

02 Money 2

- ① Mention the motives for holding money.
- ② Which motives depend on income, which motives on interest rates?

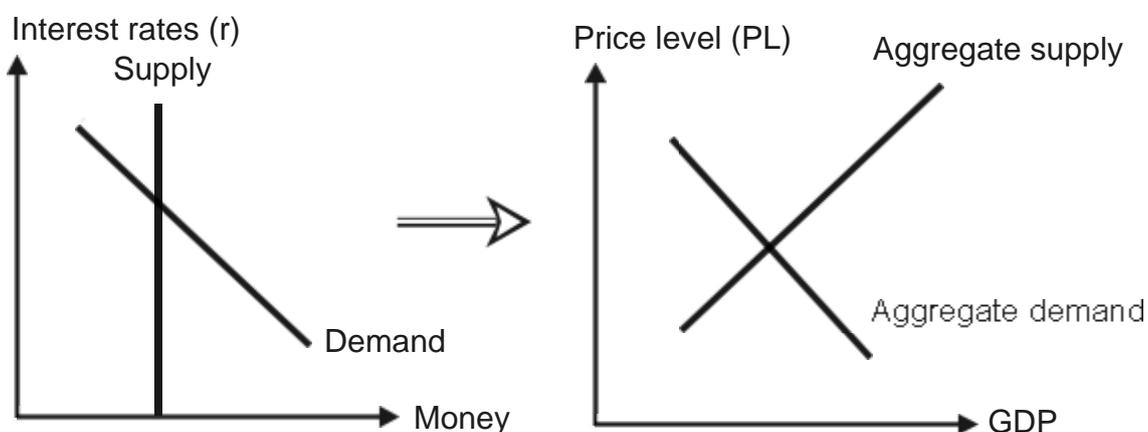
03 Money market



What happens to the interest rates if the central bank reduces the money supply to fight a boom?

04 Money market, GDP and inflation

The central bank increases the money supply. What happens to GDP and to the price level?



05 Money creation 1

A bank receives deposits of 5000.

Assumptions:

- Reserve ratio (r) = 0.2
- The public does not hold cash.
- Money creation goes on forever.

How much money is there at the end of the process?

06 Money creation 2

$$\text{Money multiplier} = \frac{1}{1 - (1 - c)(1 - r)}$$

c = Cash ratio (by the public)

r = Reserve ratio (by the banks)

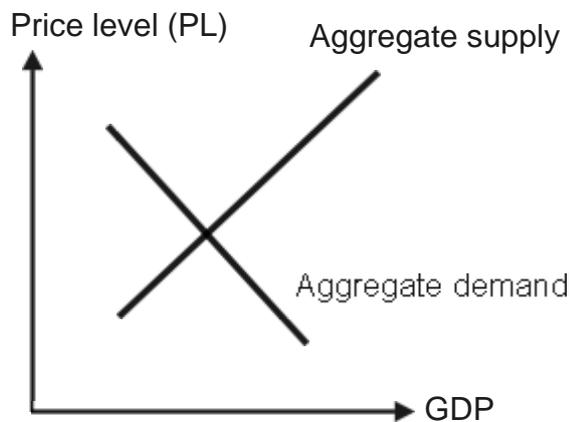
What happens to the money multiplier if

- ① the public holds more cash (cash ratio rises);
- ② the reserve ratio is reduced?

07 Inflation 1

Which costs are caused by inflation?

08 Inflation 2



What happens to the price level and to GDP if an oil crisis occurs?

09 Price level

Calculate the increase in prices:

Year	Price level (index)
1	105.0
2	108.2

10 Quantity theory of money

Equation of exchange: $M * V = Q * P$

M = Money supply

V = Velocity of money

Q = Real output

P = Price level

How can inflation be explained if V is constant and if there is full employment?

→ [Answers. Click here!](#)