
Other suggested readings:
- D. N. Robertson, *Money* (a Cambridge Econ. Handbook)
- Friedman, *Dollars and Deficits*
- Friedman & Heller, *Monetary vs. Fiscal Policy*
- International Encyclopedia of Social Sciences
- A Recent Federal Reserve Bulletin
- Meyers, *The Bankers*

Expect frequent exams: #1 about Feb. 9
#2 about Mar 2


Economics 411 - Review Questions

1. What are the advantages and disadvantages of money (a) to the consumer; (b) to the producer, and (c) to the saver/investor? Compare with a barter economy.

2. "Liquidity is a continuum." Explain?

3. How are the definitions of money and liquid interlinked? Distinguish M1, M2, etc.

4. Explain what is meant by velocity of money. Is it a constant? Can changes in velocity be explained?

5. A banker might say -
   "Banks do not create money; they simply lend out the money that depositors entrust to them."

   An economist is apt to say -
   "The largest part of our money supply - i.e., checking accounts - is created by private bankers when they extend loans (or interest)."

   Evaluate and carefully compare the two above statements. Can they both be right?

6. What determines the limits on the multiple expansion of bank deposits? Are these limits stable or variable? How is the "deposit multiplier" different from the "spending (or investment) multiplier" of Keynesian fame?

7. Be able to use T-sect to explain the relationships between F.R. policy actions and their effects upon bank reserves, bank loans and money supply.

8. In what respects is GNP deficient as a measure of "economic welfare"? What does GNP measure?

9. What is the difference between Saving and Investment? "Saving" and "Savings"? (a stock and a flow?)

10. What are the econ. advantages of "financial intermediation?" What is the meaning of dis-intermediation?

11. What is the difference between a "capital market" and "money market?"
Part IV: Monetary Theory - Weeks: Feb 13, 19, 26. Ritter - Chaps. 15, 16, 17

1. What are the major conclusions of the classical theory and how are these conclusions related to the key assumptions of that theory? (neutrality of money).

2. What is the distinction between induced and autonomous expenditures? Illustrate by a Keynesian model of income determination.

3. A Keynesian theory of liquidity preference and interest rates would imply that low interest rates are associated with increasing money stock. But during periods of rapidly increasing money stock, interest rates have risen sharply. Can you explain the seeming contradiction?

4. Derive the IS-LM framework either (a) graphically or (b) algebraically. What factors determine the slopes of the IS-LM curves? What changes in autonomous or policy variables would cause IS and LM curves to shift?

5. What assumptions lie behind the IS and LM curves?

Part II: The Business of Banking Ritter Chap. 6-8 Week of March 5

1. What is the present "theory" of bank regulation? Are its assumptions justified? Do you think banks should be regulated any more than any other business? What was the "Hunt Report"?

2. How do the following actions affect competition in banking (a) Reg. Q, (b) prohibitions against branch banking, (c) requirements that banks be chartered and insured, (d) prohibition against interest payments on demand deposits? Meaning of competition?

3. Is there a relationship between size, econ, of scale, and profitability? How large should we allow banks to grow? (See Tables 4,5).

4. What have been the major changes in the sources and uses of bank funds since 1950?

5. Is there a conflict between liquidity and safety on the one hand and profit ability on the other? Explain?

6. What is the "real bills" doctrine and why has it fallen in favor as a guide to monetary and credit policy?

Part III: The Art of Central Banking Weeks Ritter Chap. 9-14 Week of March 12,19, April 2

1. Who "controls" the Fed. Res. System? Has it always been this way?

2. What are the powers of the "Fed"? Are they adequate? What changes have taken place in the way the Fed operates monetary policy? (Both goals/targets and implementation.)

3. Can actions of the U.S. Treas. disrupt monetary policy as set by the Fed?

4. What is the member bank reserve equation? What are the sources of the monetary base? The competing uses of these sources?

5. What are the differences between targets and indicators? Between monetary aggregates and money market conditions?

Part V: Monetarist-Keynesian Debate Ritter - Chps. 18-20 Weeks of April 9, 16

1. What are the basic conclusions of the "Monetarists". (Friedman variety) and what are their assumptions?

2. What are some possible "basic" explanations of the difference between the Monetarists and the "Keynesians"?

Part VI: Effectiveness of Monetary Policy: Ritter - Chaps. 21-25, 27,34 Weeks of April 23 April 30, May 7

FINAL EXAM: Wednesday, May 16 at 7:30 a.m.