HW #10
Econ 1112
Due Monday, 5/3 at the beginning of class

For each of the monetary policy (or economic behavior) changes indicated below, draw 3 separate graphs:

   i) a graph of the market for “loanable funds”
   ii) the “Keynesian cross” diagram (with the 45-degree line and the flatter planned spending line)
   iii) a graph of the aggregate demand, aggregate supply.

Under each graph explain (in one or two sentences) what is happening, and draw a conclusion about what will happen to the variables depicted.

1. The Federal reserve buys government bonds from the private sector, on the NY bond market

2. The Federal Reserve raises the discount rate that it charges banks for borrowed reserves

3. Banks become over-confident and decide to hold smaller levels of excess reserves

4. Households become nervous about bank solvency, and decide to hold more in cash and less in deposits