Econ 330 – Money and Banking
Problem Set 4

Due: Wednesday, July 12

Question 1

Explain why you would support or not support the independence of the Federal Reserve System from government and/or Congress.

Question 2

A person makes a deposit of $\$1,000$ and the required reserve ratio is 10%. According to the simple money creation model, what is the final total change in deposits? If the currency ratio is 2% and the excess reserves ratio is 5%, what would a more realistic model imply for the final total change in the money supply?

Question 3

Explain what happens to the money supply when:

(i) the currency ratio falls,

(ii) banks expect many depositors to withdraw their money (deposit outflows are expected to rise),

(iii) interest rates go up.

Question 4

Using the supply and demand for reserves framework, show and explain the impact on the federal funds rate of the following actions of the Fed:

(i) an reduction of the discount rate,

(ii) an increase in the required reserves ratio,

(iii) an open market sale of Treasury bonds.