

Econ 231 - Macroeconomics - Homework N9
4 points total.

PRINT YOUR NAME _____

- N1 (1 point).** The correct illustration of the effects of a monetary policy is
- a. a change in Investment Expenditure → a change in money supply → a change in interest rates → a change in actual GDP.
 - b. the Fed changes AD → a change in Investment Expenditure → a change in AS → a change in money supply → a change potential GDP
 - c. a change in AS → a change in Investment Expenditure → a change in interest rates → a change in money supply → the Fed changes potential GDP
 - d. the Fed changes money supply → a change in interest rates → a change in Investment Expenditure → a change in AD → a change in actual GDP

N2 (1.5 points). Show and explain how a contractionary monetary policy works (who does what?). What kind of gap the monetary policy closes? You need to use the Money Market Diagram, the Income-Expenditure Diagram and the AD-AS Diagram and label all curves and lines properly.



N3 (1.5 points). Show and explain how an expansionary monetary policy works (who does what?). What kind of gap the monetary policy closes? You need to use the Money Market Diagram, the Income-Expenditure Diagram and the AD-AS Diagram, and label all curves and lines properly.

