Econ 231 - Macroeconomics - Homework N9 4 points total.

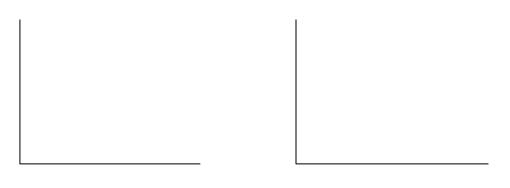
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N1 (1 point). The correct illustration of the effects of a monetary policy is

- 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.