1. What are the three functions of money? Evaluate whether “gold” can effectively serve these three functions.

3function 1. a medium of exchange - what a people generally accept in their trasaction of G&S
2. a store of value - is a currency, asset or commodity that maintain its value without depreciating.
a unit of account - allows people to compare the value of things

2. Suppose that people hold 1000$ as cash, 1000$ as demand deposits, and 1000$ as savings; calculate narrow money and broad money. How much is the “money supply” in the economy?

broad money: money(cash) + demand deposits + saving
= 3000 $

3. What is Fractional Reserve System (FRS)? Explain how money can be created through this system.

Because only a fraction of deposits are backed by actual cash.
That is RR and the money that excess ER will be lent to other.

4. Suppose that the reserve ratio is 20% and that Mr.Bean has 100$ CASH and 200$ DEPOSIT. Assume that people deposits all their money, and that the banks lend all their deposits; answer the following questions.

a) What does the reserve ratio of 20% means?

A) The reserve ratio of 20% means- the portion of the total deposit that the commercial bank have to keep as reserve at Central Bank. For example if i deposit 100$ the commercial bank have to keep rr for 20% or 20$ as a reserve at CB

b) WITHOUT the fractional reserve system (FRS), how much is the money supply?

without FRS total deposit = cash + deposit

= 100 + 200

= 300$

c) Calculate the money multiplier.

$$\text{money MPC} = \frac{1}{RR}$$

$$= \frac{1}{0.2} = 5$$

c) Calculate the money multiplier?

d) WITH the FRS, how much is the TOTAL DEPOSIT within the economy?

with FRS, Total deposit = deposit × $\frac{1}{RR}$

$= 200 \times \frac{1}{0.2}$

$= 1{,}000$

e) How much deposit is created from the FRS?

Created from the FRS = Total deposit − deposit

$= 1000 - 200$

$= 800$

f) WITH the FRS, how much is the money supply?

with FRS, Money Supply = cash + total deposit

$= 100 + 1000$

$= 1{,}100$

5. Explain three roles of central banks.

- ėnact monetary policy : controll ms
- lender of last resort : last funds to troubledbank
- managing exchange rate

สภาพคล่อง

6. What is Liquidity? What is the most liquid asset? Explain the three reasons (according to Keynes) why people prefer to have liquidity. Which of these three reasons causes the money demand curve to be downward-sloping?

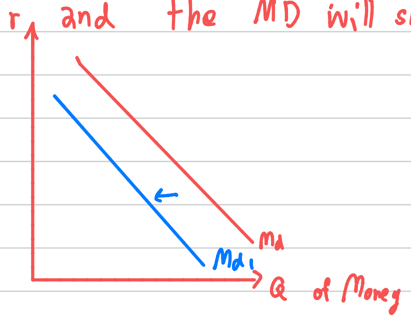
liquidity: how easy assets can be converted into mean at exchange & cash is most liquid asset & transactio
Precautionary, speculate & speculative demand cause.

Md

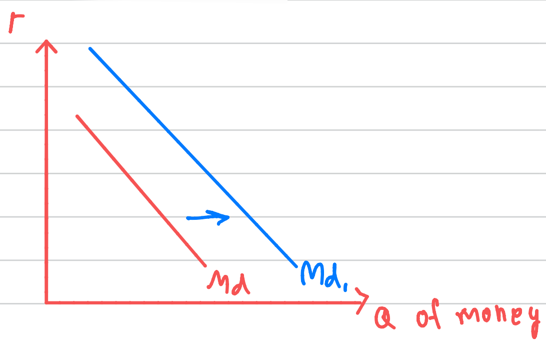
7. How does each of the followings affect the money demand curve? (That is, will it shift the curve, or is it movement along the curve?) Also, explain your reasoning.

a) People become poorer.

People become poorer because the level of income is decreasing and the MD will shift to the left

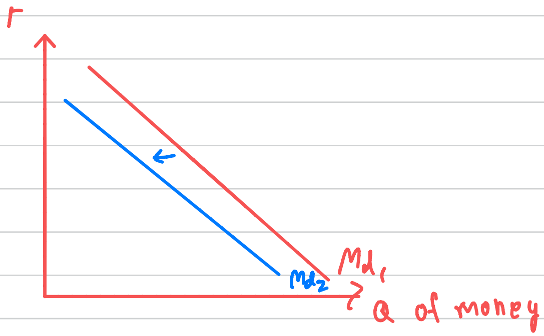


b) Goods become more expensive



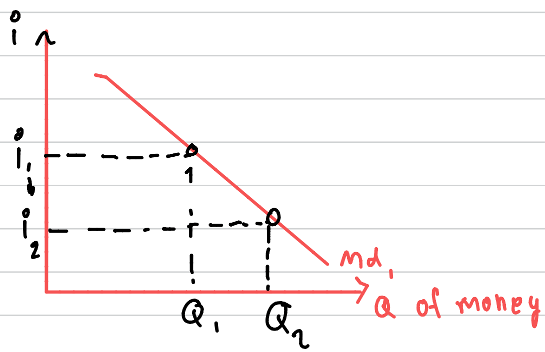
Population wants more money to consume the goods & the Md will shift right

c) People prefer to hold less cash due to debit/credit cards



People prefer to used debit/credit cards more than cash
The Md will ship left.

d) The central bank decreases interest rate.



People convert the bond to cash

Quanlity of Money₁ is more than Q_2

But the Md will move along the curve

8. Why is the money supply curve a vertical line? How does each of the followings affect the money supply curve? Also, explain your reasoning.

a) People deposit more money.

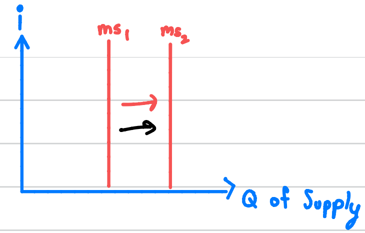
b) The central bank increases reserve ratio.

c) The central bank decreases discount rate.

d) The central bank decreases interest rate.

the money supply curve isn't depend on interest rate.

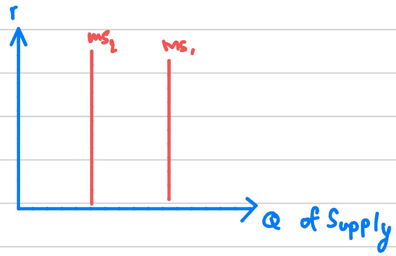
a)



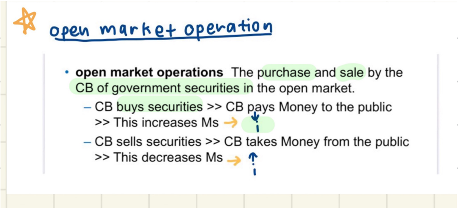
People deposit more money

It is affect to money multiplier if you deposit 100$ the commercial bank will keep reserve ratio for

b)

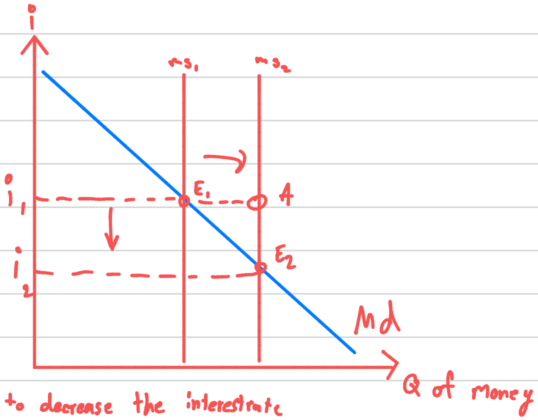


9. Suppose that the central bank wants to lower interest rate to boost the economy. Explain, together with the money market diagram, how the central bank can achieve this through an open market operation.



open market operation

- **open market operations** The purchase and sale by the CB of government securities in the open market.
  - CB buys securities >> CB pays Money to the public
    >> This increases Ms → i↓
  - CB sells securities >> CB takes Money from the public
    >> This decreases Ms → i↑



The Central bank need to buy security to decrease the interestrate

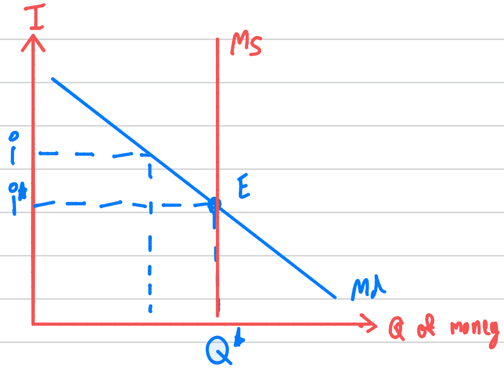
The money supply will shift to the right

And when CB buy security or bonds it will have a new equilibrium that is excess from md

so the bond issue will respond by lower interest rate.

The equilibrium will move to E_2

10. Suppose that the money market is NOT in equilibrium because the current interest rate is higher than the equilibrium rate, i > i*. Explain how the money market adjusts to reach the equilibrium.



When the interest rate is higher than the equilibrium rate.

People convert cash to bond so the demand of bond is growing up.

Then the Interest rate of bond will decrease that affect to demand of bond will decreasing.