Student ID.................................

EE212 Principles of Macroeconomics, 2/2017 (Sec. 046402-Sicha)

Homework 7 : Chapter 5. Money Market and Monetary Policy

Please submit at the BE office, 5th floor department of Economics building.
Deadline of submission : March 28, 2018, before 15.00 hrs. Late submission will not be accepted.

1. Let A be the **last digit** of your student ID. If the last digit of your student ID = 0, let A = 10.

   $\boxed{\textbf{A} = \text{............}\qquad\qquad}$ **[Be careful. If you use a wrong number for your "A" for this homework, your homework will not be marked.]**

   Example.

   - If your student ID is 400464003**8**. Your A = **8**.
   - If your student ID is 400464003**0**. Your A = **10**.
   - If your student ID is 400464003**5**. Your A = **5**.

2. Suppose there is 2,500 million Baht in the hand of the public: 2,500 in form of currency in circulation and 0 in form of demand deposit. The legal reserve requirement ratio is **A**%. Assuming that the banking system has the potential to create/destroy deposits to the maximum.

   (a) What is the money supply of the economy?

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   (b) Suppose people preference toward cash and deposit changes. They want to deposit 2,500 million Baht into the banking system. How does money supply change? What is deposit multiplier? How much money supply does the banking system create?

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3. Suppose there is 15,500 million baht in the hand of the public: 1,000 in form of currency in circulation and 14,500 in form of demand deposit. The legal reserve requirement ratio is **A**%. Assuming that the banking system has the potential to create/destroy deposits to the maximum.

   (a) What is the money supply of the economy?

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   (b) Suppose people preference toward cash and deposit changes. They want to deposit 100 million Baht more into the banking system. How does money supply change? How much money supply does the banking system create?

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   (c) **Based on your answer in question (a)**, suppose people preference toward cash and deposit changes. They want to withdraw 10 million Baht deposits. What is the new money supply of the economy?

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4. Suppose there is 25,000 million baht in the hand of the public: 5,000 in form of currency in circulation and 20,000 in form of demand deposit. The legal reserve requirement ratio is **A**%. Assuming that the banking system has the potential to create/destroy deposits to the maximum.

   (a) What is the money supply of the economy?

   (b) Central bank buy 200 million Baht worth of Government bonds from the public. People who receive the money decided to hold the received money as cash. How does money supply change?

   (c) **Based on your answer in question (a)**, Central bank buy 200 million Baht worth of Government bonds from the public. People who receive the money decided to deposit the money into the bank in full amount. How does money supply change?

   (d) **Based on your answer in question (a)**, Central bank sell 200 million Baht worth of Government bonds from the public. People use cash to buy the govenment bond from the central bank. They did not withdraw the money from any commercial bank. How does money supply change?

   (e) **Based on your answer in question (a)**, Central bank sell 200 million Baht worth of Government bonds from the public. People withdraw the money from commercial banks by 200 millions to buy the government bonds from the Central bank. How does money supply change?

5. Why is the potential deposit multiplier (the maximum deposit multiplier $= \dfrac{1}{\text{legal reserve ratio}}$) probably larger than the actual deposit multiplier?

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6. According to keynesian economists what are the main components of demand for money? What are the determinants of each component? Explain.

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