

The Last One!

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment.

- 1) (15 points) Business cycles prior to World War II were more extreme than they have been since World War II. What has changed in our economy to cause this? Explain why that would reduce the severity of the cycles.
- 2) (20 points) Some economists feel that fiscal policy works, but it takes a long time to affect the economy. Explain why it could be bad for the policy to take a long time to affect the economy.
- 3) (10 points each) For each transaction below, determine what happens to M1 and M2. Explain your logic.
 - A) You transfer \$100 from your savings account to your checking account.
 - B) You pay for a \$50 shirt with your credit card.
 - C) You withdraw \$20 cash from your checking account.
- 4) (15 points) Why aren't credit cards part of the money supply?
- 5) (20 points) Give an example where something is used as a medium of exchange, but not a unit of account. Explain how it served as the former, but not the latter.