

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. The Excel file will be handed in via Moodle. Your name will only appear on a page of the file that has nothing else on it. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 10-point question should take 5 minutes.

**Remember to fill out course evaluations.**

1) (12 points) For EITHER the *full employment budget deficit* OR the *primary budget deficit*, explain what it means and why it is a better way to determine if Congress is doing good fiscal policy than using the actual budget deficit to determine if Congress is doing a good job.

2) (12 points) Answer EITHER Part A OR Part B.

A) A lot of economists recommend rules for monetary policy. What is the most commonly recommended rule? State one reason why it is a good rule.

B) Why is it important to have an independent central bank?

3) (18 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for US\$ with the euro (€) as the other currency. Put a peg with the dollar undervalued. What must the Fed do to keep the exchange rate there? Explain your logic. Can they do that forever? Explain your logic.

B) Draw the diagram of the fundamental exchange rate and the peg. Use the US\$ with the yen (¥) as the other currency. Suppose we were to the right of equilibrium. What would the Fed have to do? Explain your logic

4) (18 points) Answer EITHER Part A OR Part B.

A) Suppose the currency-deposit ratio is 20% and the reserve-deposit ratio is 10%. How much is the money multiplier? Show all work. How can the Fed’s purchase of a \$10,000 bond cause the money supply to go up by more than \$10,000? Explain your logic.

B) Using the balance sheet to the right, determine how much excess reserves the bank has. Show all work. If the money multiplier is 5, then how much would the money supply increase assuming this bank loans out all of its excess reserves? Explain how you reached that conclusion. What is the value of the “?”? State briefly how you got that.

Assets		Liabilities & Net Worth	
Deposits at Fed.	\$10	Checking	\$90
Cash in vault	\$5	Misc.	\$100
Loans	\$200	Loans	?

5) (40 points) The file [exam4.xlsx](#) is the actual unemployment rates for the months for the USA. They are not seasonally adjusted. Seasonally adjust the data. Forecast the unemployment rate for the rest of the year.