

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 and failure to type it will cost you 10 points.

Seniors who are taking comprehensives, will take Exam #4 on Friday, 4/15. I expect that it will be during the normal class time. (I still have to arrange this.) The material for the test will be the last part of Chapter 12 through Chapter 14. You can either look at old review sheets, found on the page of old assignments, or you can wait until the review sheet for Exam #4 is handed out on 4/13.

1) (20 points) There are problems with lags in fiscal policy. Explain what they are and why they cause some economists to believe that fiscal policy should not be done.

2) (15 points) What is meant by automatic stabilizers? Name two and explain how they stabilize the economy.

3) (10 points each) For each event, determine what happens to M1 and M2. Explain how you reached your conclusions. State all assumptions you make.

A) You move \$12,000 from your savings account to your checking account.

B) You pay your \$35,242 tuition bill with a check.

C) You pay \$6,009 for books on your credit card.

4) (20 points) What is meant by adverse selection? How does it cause banks problems?

5) (15 points) Would M1 or M2 make a better medium of exchange? Explain your logic.