

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. Failure to follow these directions will cost you 1 point on the assignment.

1) (10 points each) For each event, determine what happens to M1 and M2. Explain your logic.

A) You transfer \$1000 from your checking account to a savings account.

B) You take \$200 cash out of your money market mutual fund.

C) You buy \$1200 worth of textbooks (one course) with your credit card.

2) (25 points) Do you think that M1 or M2 does a better job predicting expenditures in the next few months? Explain your logic by referring directly to the items that are different between them.

3) (20 points) Give an example of a currency's being used as a medium of exchange, but not as an unit of account. Make sure you define both terms.

4) (25 points) Give an example of adverse selection in the banking industry. Be very specific in your explanation of how that is adverse selection.