Discussion Handout #13 **TA: John Stromme**
Econ 102 UW Madison, Fall 2016
Prof. Eudey Date: 12/02/16

Goals for this session

- Complete our discussion of monetary policy and understand the full logic behind how the tools of the fed end up affecting the overall economy:
  - Tools available to the Fed
  - The Money Market
  - Investment effect
  - International Trade effect

Problems

1. Tools of the fed
   (a) List the Fed's Monetary Policy tools we have discussed in this class. Explain what they are, and how they affect the money supply:
   -
   -
   -
   -
   -
   -

   (b) Which policy tools were created as a result of the great recession crisis and why?
   -
   -
   -

2. The Money Market
   (a) Draw the money market graph

(b) Why is money supply vertical?

(c) What are the three reasons we discussed in class for money demand? Explain.

-

-

-

(d) Which two fall during recessions?
Which one rises?

(e) The Federal Reserve direclty sets the federal funds rate. (True/False)

(f) What is meant by the term 'pushing on a string' in describing a particular monetary policy scenario?

3. Effects of the changing interest rate

   (a) What are the two channels through which changing the interest rate affects aggregate demand? Explain.

   -

   -

4. Putting it all together: Fill out the following table

	Fed makes open market purchases
Money supply shift	
Interest rate	
Investment	
Foreign demand for US assets	
Price of dollar	
Exports	
Imports	
GDP	

P.S. Fill out the TA survey please!!! Check your email for a link.