

In-class Exercise

Market for Money

Directions: Work in groups of up to four people and answer the following questions. All papers will be collected, but only one member's paper will be randomly selected and graded and all members of the group will receive the same grade.

By signing below, you agree that the following work represents the efforts of everyone in the group, and you are willing to accept as your own grade for the group project the grade earned from this representation of your group's work.

_____ Signature Group Member 1	_____ Print Name	_____ Date
_____ Signature Group Member 2	_____ Print Name	_____ Date
_____ Signature Group Member 3	_____ Print Name	_____ Date
_____ Signature Group Member 4	_____ Print Name	_____ Date

5. Describe and illustrate the impact on the interest rate and the quantity of money if people expect an increase in the rate of inflation.

6. Suppose the Fed makes an open market sale of securities it owns.

(a) Describe and illustrate the impact on the interest rate and the quantity of money.

(b) Describe of the policy above on consumer spending, savings, and borrowing.

(c) Define **investment**. Describe the impact of the policy above on investment demand.

(d) Describe the impact on of the policy on aggregate demand.