

Macroeconomic Analysis
Fall 1998 On Line
Assignment 1

Read Ch. 2 of Rukstad and answer the following questions.

1. What was the primary cause of the crisis in 1931 for the U.S. (One paragraph answer.)
2. What was the role of the Bank of France? What did they demand and should we (the U.S.) have paid any attention to this demand? (1-2 paragraphs answer.)
3. What was the status of the governance of the Fed—was it highly coordinated, excessively concerned with public opinion or what? (1-2 paragraph answer.)
4. What would have happened if the U.S. had simply left the gold standard in 1931? What would have happened to U.S. interest rates, banking conditions, capital flows, output, inflation, etc.? (One page answer.)

Read the Note after Ch. 2.

5. Table 1 on page 49 indicates that money growth and nominal GNP are related. To what extent and for what countries is this relationship consistent with the monetarist propositions of the later chapters? (2-3 paragraphs.)
6. Is the money creation process described in Table 5, p. 57 and in the related text a description of how much money is likely to be created or does it simply give an upper bound? (1-2 paragraphs, but try to think this through. Also, would banks want to issue the maximum possible amount that they could at all times?)
7. On page 61, it is written that Keynesians and Monetarists both have explanations for the downward sloping demand curve, but neither has an explanation for the upward sloping supply curve. Why is the supply curve so difficult to explain or defend? Why does the analogy to the standard upward sloping supply curve fail? (This question is hard. Remember the vertical axis has the aggregate price level, not the price of any individual good.)
8. Does the monetarist explanation for the means by which money affects output rely on an interest rate mechanism? Does the interest rate have to change in any particular way according to the monetarists? (1-2 paragraphs.)