

Read 15.3

Monetary Policy, Banking and the Economy

In the short run, how does an increase in the money supply affect interest rates?

In the short run, how does a decrease in the money supply affect interest rates?

Draw the graph on 427, illustrating monetary expansion.

Draw the graph on 427, illustrating money contraction.

According to the examples given in the book of Spanish Gold and the Continental Congress, what is the long run impact of expanding the money supply on price levels?

What impact does the government borrowing money have on the interest rates?

When the FED tries to decrease inflation by restricting the money supply, what happens to interest rates (see the example of the 1980's)?

How do low interest rates affect average citizens?

How does your textbook define money in M1?

What is additionally included in M2?

Why is the FED viewed as independent of the political pressures of the other branches of government?

Why doesn't the FED just always lower interest rates? What do they fear will happen if they do?

Are high interest rates considered healthy or unhealthy for the economy?