

Money Supply Problems

1. Assume the following:
currency ratio = .3
required reserve ratio = .1
excess reserves ratio = .1
money market account ratio = 4
time deposit ratio = 2
monetary base = \$400 billion

What are the equilibrium values for M1, M2, D, C, T, MMF?

2. Assume the Fed makes an open-market purchase for \$1 billion. By how much will equilibrium M1 change? Equilibrium M2? (Assume all relevant ratios remain constant)
3. Assume the public now desires to hold more time deposits relative to their holdings of checkable deposits. What will be the likely effect on equilibrium M1 and equilibrium M2? That is, will they increase, decrease or stay the same?