**MECON202 TUTORAL SHEET # 2**

1. List and explain the three characteristics of money.
2. What are the assumptions and predictions of the simple quantity theory of money? Does the simple quantity theory of money predict well?
3. Changes in money supply will undoubtedly have an effect on the country’s outputs, employment and prices. Explain the likely impact of changes in money supply on the macro-economic variables outlined.
4. Assume the Bank of Smithville opens its doors to depositors and receives $100,000 in cash deposits. Assume furthermore that the bank has to abide by a 20% reserve ratio.

 Show the transactions on the bank’s accounts. Can the bank make a loan of $90,000.00?

1. ASSETS LIABILITIES

 **Reserves $1,000.00 $27,000.00 Deposits**

 **Loans $16,000.00**

The required reserve ratio is 11.5%.

How much the bank is required to hold as reserves given its deposit of $27,000.00?

 How much are its excess reserves?

By how much can the bank increase its loans?

Suppose a depositor comes to the bank and make a withdrawal of $500.00 in cash. Show the bank’s new balance sheet, assuming the bank obtains the cash by drawing down its reserves? Does the bank now hold excess reserves?

1. A loaf of bread, a computer, and automobile tires have gone up in price; therefore, we are

 experiencing inflation.” Do you agree or disagree with this statement? Explain your answer.

1. “One-shot inflation may be a demand-side (of the economy) or supply-side phenomenon, but continued inflation is likely to be a demand-side phenomenon.” Do you agree or disagree with this statement? Explain your answer.
2. Outline the different mechanism by which inflation can be kept constant
3. In simple terms how is the interest rate determined in the economy and explain why?
4. Draw the demand and the supply for money and identify the equilibrium interest rate. Make sure to draw a money supply curve that is independent of the interest rate. Draw the curves so that the equilibrium interest rate is 8%. Explain why interest rates above or below 8% are not stable.
5. Will a change in the exchange rate that subsequently increases the price of U.S. goods relative to foreign goods lead to a change in the quantity demanded of Real GDP, or to a change in aggregate demand? Explain your answer.

1. Jamaica’s exchange rate has stabilized around an average value of JA$86 to US$1 in 2009. Explain how changes in exchange rates are determined and the impact of such changes on a country’s production costs.
2. Outline the different causes of balance of payment (BOP) disequilibrium
3. Discuss the consequences of BOP disequilibrium on both the domestic and external economies
4. Identify two fiscal policies utilized by the current Jamaican Government. Discuss the impact of these policies on the island’s economy