

## Unit 5 Study Guide – Monetary Policy

### Macroeconomics

- 1) What are the 3 macroeconomic goals?
  - a.
  - b.

### Money

- 2) What are the 3 functions of **money**?
  - a.
  - b.
  - c.
- 3) Which of the following best represents money as a unit of account?
  - a. Comparing the price of gas at the Shell station and the QT station
  - b. Finding a \$50 bill under your mattress & using it to buy new shoes
  - c. Paying the mechanic money for working on your car
- 4) Which of the following best represents money acting as a medium of exchange?
  - a. Comparing the price of gas at the Shell station and the QT station
  - b. Finding a \$50 bill under your mattress & using it to buy new shoes
  - c. Paying the mechanic money for working on your car

### The Federal Reserve

- 5) Within the Federal Reserve Bank, who sets/controls monetary policy?
- 6) Who is the governing body of the FED? How many of them are there?
- 7) How many Federal Reserve District Banks are there?
- 8) What is the purpose/goal of monetary policy?

### Business Cycle

- 9) Draw the business cycle below & label each phase

**Identify which phase of the business cycle is being described in each of the scenarios below: Contraction (C), Expansion (E), Peak (P), Trough (T)**

- 10) GDP and production are at the maximum point, inflation is high
- 11) Unemployment is at record high levels & consumers are not spending money
- 12) Inflation is steady but rising and consumers are gaining confidence in the market
- 13) Inflation is dropping, unemployment is rising and businesses are not investing in capital goods

## Monetary Policy

- 14) What are the 4 tools the **Federal Reserve** uses to control the money supply? Circle or star the one which is most commonly used.
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- 15) Which of the following best describes the discount rate?
- Interest rate charged by the FED to banks when the banks borrow money from the FED
  - Interest rate charged by banks to the people when they borrow money
  - The required amount of money that banks must set aside in their vault
  - The buying and selling of government bonds/securities
- 16) What is a reserve requirement?
- 17) What is the goal of an Expansionary Monetary Policy?
- 18) What is the goal of Contractionary Monetary Policy?
- 19) Which of the following best reflects an Expansionary Monetary Policy?
- Increase the Discount Rate, Reserve Requirement, & BUY bonds
  - Decrease the Discount Rate, Reserve Requirement, & SELL bonds
  - Increase the Discount Rate, decrease Reserve Requirement, BUY bonds
  - Increase the Discount Rate, Reserve Requirement, & SELL bonds
- 20) Which of the following best reflects an Contractionary Monetary Policy?
- Increase the Discount Rate, Reserve Requirement, & BUY bonds
  - Decrease the Discount Rate, Reserve Requirement, & SELL bonds
  - Increase the Discount Rate, decrease Reserve Requirement, BUY bonds
  - Increase the Discount Rate, Reserve Requirement, & SELL bonds

### Fill in the chart for each scenario

	(A)	(B)	(C)	(D)	(E)
	Type of Monetary Policy you want to implement: Expansionary or Contractionary?	Would this increase or decrease AD/GDP?	Action on Required Reserve Ratios: decrease or increase?	Action on Discount rate: decrease or increase?	Action on Open Market Operations (bonds/securities)
The national Unemployment rate rises to 12%	easy or expansionary	increase	decrease	decrease	buy
21) Inflation is high and its rate is now 14% per year					

22) Surveys show consumers are losing confidence in the economy and retail sales are weak.					
23) Inflation increases while unemployment stays high					
24) Business sales and investment are expanding rapidly, and economists believe strong inflation lies ahead					

## Personal Finance

### Match the financial institution to its correct description

- 25) \_\_\_\_\_ Credit Union
- 26) \_\_\_\_\_ Bank
- 27) \_\_\_\_\_ Payday Lender
- 28) \_\_\_\_\_ Title Pawn Lender
- A. A for-profit institution that offers personal loans, mortgages, and other services.
- B. companies that make small short-term, high-interest loans to tide a person over "until payday"
- C. Provides short-term loans to individuals who use items like vehicles as collateral to secure their loan in case they can't repay the loan
- D. A nonprofit financial institution that is owned by its members and organized for their benefit.

29) Which type of interest do you want as a LENDER, simple or compound? Why?

30) Which type of interest do you want as a BORROWER, simple or compound? Why?