

CP Economics

Loretelli

Essay/ open response questions

Period 1

Week #3

Answer all questions completely, with examples from the reading.

1. Why doesn't the government simply increase the money supply to cover budget deficits
2. What are the main tools of monetary policy, and how does the Fed use them to promote stability, full employment, and economic growth?
3. How does the required reserve ratio affect banks' profits?
4. What is the key difference between the views of monetarists economists and those of Keynesian or supply side economists? Explain which you think is correct.
5. What will happen if a monetary policy is chosen based on existing trends, but those trends reverse before the monetary policy takes effect? Support your argument with an example.