**AP Macro – Unit IV Review**

**Learning Goal** – The student will be able to explain how borrowing and lending decisions are made and how these decisions interact in the market for loanable funds. Rate your Unit IV knowledge by highlighting the number that corresponds of your level of understanding.

|  |  |
| --- | --- |
| Points | Scale |
| 4 | I understand and could teach a mini lesson on loanable funds. |
| 3 | Without help I can explain how borrowing and lending decisions are made and how these decisions interact in the market for loanable funds. |
| 2 | With help I can explain how borrowing and lending decisions are made and how these decisions interact in the market for loanable funds. |
| 1 | I have very little knowledge about loanable funds. |

**Financial Institutions and Markets**

1. Finance
2. Physical capital
3. Financial capital
4. Net investment/ gross investment
5. Wealth
6. Saving
7. List the three markets for Financial Capital
8. Bond
9. Stock
10. Financial Institutions
11. Insolvency and Illiquidity
12. Interest Rates

**The Market for Loanable Funds (Use PowerPoint, Welker Tutorials & Chapter 14 (p.298-300)**

1. Market for Loanable Funds
2. Flows in the Market for Loanable Funds
3. Real Interest Rate
4. Expected Profit
5. Demand of Loanable Funds
6. Supply of Loanable funds
7. What shifts the Supply for Loanable Funds?

A.

B.

C.

D.

E.

 20. Fannie Mae

 21. Freddie Mac

**The Government in the Loanable Funds Market**

1. What happens to the supply of LF when the government enters a time of budget surplus? Draw the graph to support your answer.
2. What happens to the demand of LF when the government enters a time of budget deficit? Draw the graph to support your answer.
3. What is the crowding-out effect?

**Learning Goal –** The student will be able to analyze and evaluate the effects of monetary policy on our economy.

|  |  |
| --- | --- |
| Points | Scale |
| 4 | I understand monetary policy and I could teach a mini unit on the effects of monetary policy |
| 3 | Without help I can analyze and evaluate the effects of monetary policy on our economy. |
| 2 | With help I can analyze and evaluate the effects of monetary policy on our economy. |
| 1 | I have very little understanding of monetary policy. |

**What is Money?**

1. What is money?
2. What are the three functions of money? Explain each function.

A.

B.

C.

3. fiat money

4. M1

5. M2

6. M3 (not in book) – **Reffonomics covers this!**

7. What is a check?

8. Why is a credit card not money?

9. What is a debit card?

**The Banking System**

10. How do the following differ??

A. Commercial Bank

B. Thrift Institution

C. Money Market

11. Explain the “Invention” of Banking

12. Bank Reserves

13. Required Reserve Ratio

14. Liquid Assets

15. Federal Funds Rate

16. Securities

17. Bonds, Bills and Notes (Not in your book/We will talk about them)

**The Federal Reserve System**

18. What is the Federal Reserve? (Central Bank)

19. Describe the role of the following:

A. Chairman of the Board of Governors

B. The board of Governors

C. The Federal Open Market Committee

20. Describe the tools of the Fed

A.

B.

C.

D.

21. Quantitative Easing

22. Monetary Base

**Regulating the Quantity of Money**

23. Excess Reserves

24. What happens when the Open Market Window buys bonds?

25. What happens when the Open Market Window sells bonds?

26. Explain how the Money Multiplier works.

27. Money Multiplier Formula **1/rr**

**Money and Interest Rate**

1. What happens to money when the Quantity of Money demanded changes?
2. Formula for nominal interest rate –
3. What shifts the Dm curve?

A.

B.

C.

4. Why is the supply of money curve vertical?

5. Draw the Ms Graph (Money Market)

**Money, The Price Level and Inflation**

6. Long run –

7. Value of money

8. How does a change in Dm affect interest?

9. Explain Money market Equilibrium in the long run.

10. Quantity theory of money

11. Velocity of Circulation of Money

12. Equation of exchange

13. Quantity theory of Prediction

14. Inflation and quantity theory of money formula-

15. Hyperinflation

**The cost of Inflation**

16. How is government affected by inflation?

17. How are savings and investment affected by inflation?

18. How big is the cost of inflation?

**Federal Reserve and Monetary Policy**

1. Describe the objectives of the Federal Reserve
2. financial stability
3. maximum employment
4. stable prices
5. core inflation rate
6. Describe the role each plays in monetary policy

A. Federal Reserve

B. Congress

C. President

7. Fed Funds Rate

8. Instrument rule

9. Targeting rule

**The Relationship between Monetary Policy and the Dollar**

1. Describe the relationship between interest rate and the U.S. Dollar
2. How does the banking system increase/decrease supply of money?
3. How does the Fed fight recession?
4. How does the Fed fight inflation?
5. Describe the various lags.
6. Take the Quick Quiz for Figure 33.5 on pg. 684-685

**Alternate Monetary Policy**

1. Discretionary Monetary Policy
2. Inflationary targeting
3. K-percent rule