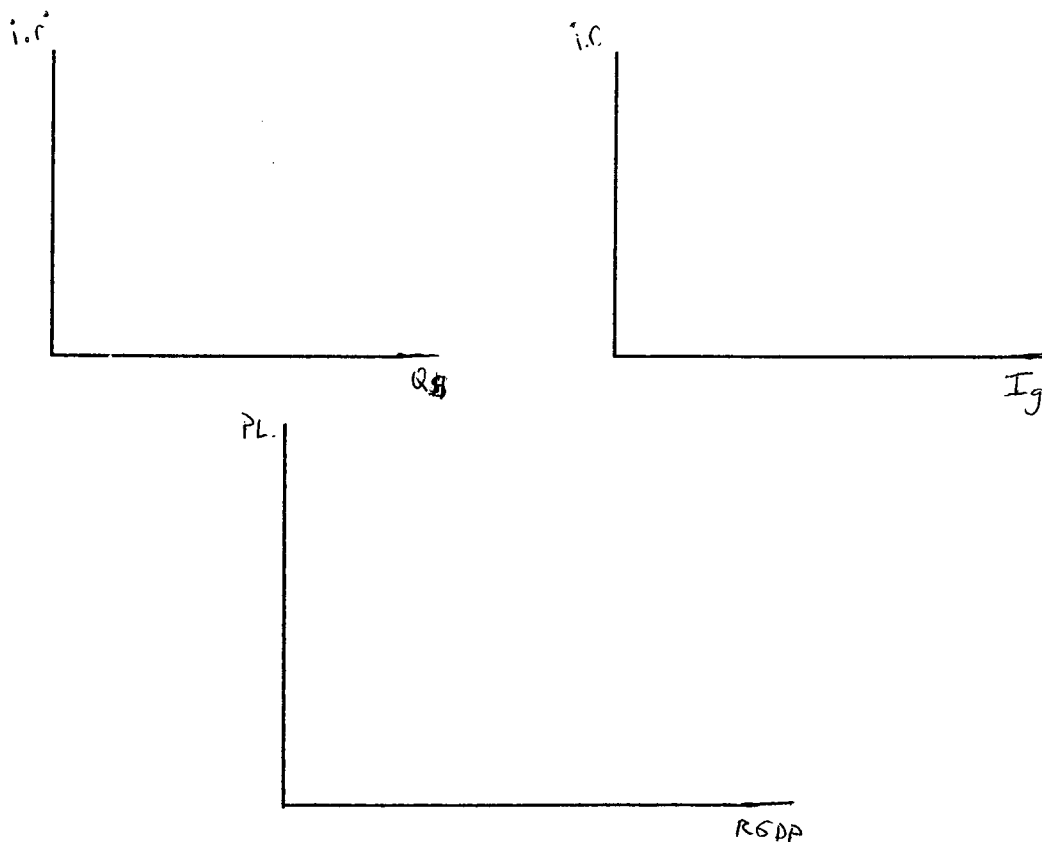


Econ 152  
Spring 2000  
Massey

Name:

**Problem Set 4**  
Due: MONDAY, MAY 8th

Use the Graphs Below to Answer the Questions at the Bottom of the Page



1. Suppose the FED believes that the economy is experiencing a recession.

a. Using the three graphs above draw in the necessary curves and schedules to depict the economy in a recessionary situation. Label these curves and equilibrium positions with a zero subscript.

b. In order to return the economy to a non-recessionary full employment level of output the fed would use a(n) \_\_\_\_\_ money policy. They would like to \_\_\_\_\_ the money supply and may use any of three mechanisms below to accomplish this goal:

- 1.
- 2.
- 3.

c. If the FED follows these policy prescriptions, trace the effects through the three graphs. Any curves or equilibrium positions that shift should be labeled with a 1 subscript.

d. Explain in words what is happening in part (c) above.

e. Explain how the slopes of the investment demand function and the money market demand can influence the effectiveness of monetary policy. In particular, what slopes make monetary policy more effective?