

ECO387L
FALL 2005

Questions for studying Freeman and Kydland (2000)

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Write short answers to the questions above the line. Think about the questions below the line. I will ask them in class.

1. Write down a simplified form of the balance sheet of the central bank and the balance sheet of the consolidated banking sector. What is the money multiplier? Express it as a function of the currency/deposit ratio and the reserve deposit ratio.
 2. What trade-offs determine the equilibrium currency/deposit ratio in the model?
 3. What effect determines the equilibrium reserve deposit ratio in the model?
 4. Are there credit goods in this model?
 5. How is money injected into this economy? What money supply rules are considered?
 6. Does inflation affect the steady state capital/labor ratio? Does inflation affect steady state consumption? Does inflation affect steady state utility?
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7. Suppose we modified the model to make the reserve/deposit ratio interest elastic. Would this change increase or decrease the standard deviation of output under policy C?
 8. How does inflation affect the composition of capital held by banks versus held by consumers directly? Is this consistent with empirical evidence?