

Part VI: Study Questions

- (1) Define outside money and inside money. Give examples.
- (2) What is the monetary base? How does it relate to the money supply?
- (3) Derive the money multiplier. (Hint: remember to account for excess reserves and the public holding currency.)
- (4) Explain how currency holdings of the public, excess reserve holdings of banks and required reserves effects the money multiplier.
- (5) Show, as we did in class, how the discount rate creates a cap on the federal funds rate.
- (6) Show using a graph how open market operation, changing the discount rate and changing the reserve requirement will effect the market for reserves.