I. Money

A. What are the primary assets and liabilities of a commercial bank?

B. What is fractional reserve banking? Why do banks hold reserves?

C. What are the objectives for bank management? What are the two approaches?

II. Money creation

A. Where did currency in circulation come from?

B. Where did money in checking accounts (demand deposits) come from?

C. How much can a bank afford to loan? Show the effect of each step when a bank makes a new loan for the bank making the loan, the Fed, and the bank where the money is deposited.

D. What is the deposit multiplier? What factors limit its size?

III. Bank regulation

A. Overview

1. What is the historical difference between commercial banks and savings & loans?
2. When are banks able to prosper even with strict government regulations?
3. Why does the government control the amount of money that banks can create?
4. When and why was the Federal Reserve System (Fed) created?

B. Bank failures

1. What were some underlying causes of bank failures in the 1930s?
2. What were some underlying causes of bank failures in the 1980s?
3. What are some underlying causes of current bank failures?

C. Federal Reserve System

1. What is the organizational structure of the Fed? What are the responsibilities of the Fed?
2. Discuss the independence of the Fed from the administrative and legislative branches of the federal government.
3. What are the three Fed tools for changing the money supply? What can the Fed do to increase (or decrease) the money supply?

IV. Money and the economy

A. How does a change in the price of bonds affect the economy? What can cause such a change?

B. What is the price of holding money? What are the three motives for holding (demanding) money?

1. What is the relationship between the current interest rate and the price of existing bonds?
2. Why is the money demand curve downward sloping? What can cause it to shift?
3. In what sense can people have “too much money?” What do they not have enough of?

C. Why is the money supply curve vertical?

D. Show the effect of an increase in the supply of money, explain how the bond market will react, and how this will affect the interest rate, AD, P and RGDP.

E. What are contractionary and expansionary monetary policy, and when are they appropriate? What happens if expansionary monetary policy is used when the economy is at full employment RGDP?

F. What are the problems with using monetary policy, particularly expansionary monetary policy when there is a recessionary gap?

V. Fiscal policy

A. What are the major components of government spending? What are the trends?

B. What are the primary sources of revenue? How is the deficit different from the debt? How large is the US deficit and debt?

C. What are contractionary and expansionary fiscal policy?

D. If G increases, what will happen to RGDP in the short run? in the long run? What will happen to C and Ip?

E. How can fiscal policy affect the LRAS? What is the Laffer Curve?

F. How do the lags for fiscal policy compare to those for monetary policy?

G. What are automatic stabilizers?