Financial Economics
Financial Markets Analysis: Part 2
Homework 3

***Try to do these without looking at your notes!***

1. An expansionary monetary policy causes the _____ curve to shift ____. The new equilibrium has __________ output and a __________ interest rate. Thus, consumption is _________ and investment is __________.

2. An expansionary monetary policy leads to excess __________ in the money market. The interest rate __________ to clear the money market. This causes investment to __________. As a result, there is excess __________ in the goods market. Output __________ to clear the goods market.

3. An expansionary fiscal policy causes the _____ curve to shift ____. The new equilibrium has __________ output and a __________ interest rate. Thus, consumption is _________ and investment is __________.

4. An expansionary fiscal policy leads to excess __________ in the goods market. Output __________ to clear the goods market. This leads to excess __________ in the money market. The interest rate __________ to clear the money market.

5. The more sensitive is investment to the interest rate, the __________ is the IS curve.

6. The more sensitive is money demand to the interest rate, the __________ is the LM curve.

7. Suppose that, due to a change in preferences, consumption demand increases. What happens to output, the interest rate, consumption and investment? .

8. Suppose that, due to a change in preferences, money demand increases. What happens to output, the interest rate, consumption and investment?