Soochow University, Summer Session I, 2022

ECON202: Macroeconomics

Discussion Session II

Question 1. Which of the following are considered money in the U.S. economy? Which are not? Explain your answers by discussing each of the three functions of money.

(a) a U.S. penny

(b) a Picasso painting

(c) a plastic credit card

Question 2. The Fed conducts a $10 million open-market purchase of government bonds. If the required reserve ratio is 10 percent, what are the largest and smallest possible increases in the money supply that could result? Explain.

Question 3. Suppose that a country's inflation rate increases sharply. What happens to the inflation tax on the holders of money? Why is wealth that is held in savings account not subject to a change in the inflation tax? Can you think of any way holders of savings accounts are hurt by the increase in the inflation rate?

Question 4. Explain whether the following statements are true, false or uncertain.

(a) "Inflation hurts borrowers and helps lenders, because borrowers must pay a higher rate of interest."

(b) "Inflation does not reduce the purchasing power of most workers."

Question 5. If a Japanese car costs 1,500,000 yen, a similar American car costs $30,000 and a dollar can buy 100 yen, what are the nominal and real exchange rates?

Question 6. Would each of the following groups be happy or unhappy if the U.S. dollar appreciated? Explain.

(a) Dutch pension funds holding U.S. government bonds

(b) U.S. manufacturing industries

(c) Australian tourists planning a trip to the United States

(d) an American firm trying to purchase property overseas

Question 7. Suppose that a textile worker's union encourages people to buy only American-made clothes. What would this policy do to the trade balance and the real exchange rate? What is the impact on the textile industry? What is the impact on the auto industry?