

2. Assume that an economy is in long-run equilibrium. Assume that consumers wish to hold less money because they use credit cards more frequently to purchase goods and services than cash.
- (c) With a constant money supply, based on your answer to part b(ii), will the velocity of money increase, decrease, or remain the same, or is the change indeterminate?
 - (d) If the central bank wishes to reverse the change in the interest rate identified in part (a), what open market operation would it use?
-
3. A country is at full employment and produces two types of goods: consumer goods and capital goods.
- (a) Draw a correctly labeled graph of the production possibilities curve, with consumer goods on the horizontal axis and capital goods on the vertical axis. Indicate a point on your graph, labeled X, that represents full employment and a possible combination in which both goods are being produced.
 - (b) Assume there is an increase in the country's national savings. Draw a correctly labeled graph of the loanable funds market, showing the change in the real interest rate from the increase in savings.
 - (c) On the same graph from part (a), show another point, labeled Z, that represents full employment and a new combination of consumer goods and capital goods consistent with the increase in the country's national savings.
 - (d) Referring to your answer to part (c), will the long-run aggregate supply curve shift to the right, shift to the left, or remain the same? Explain.

STOP

END OF EXAM