AP MACROECONOMICS • EXERCISE SHEET

4.5 The Money Market

Name: ____________ Class: ________ Date: __________ **Total: 8 marks**

KEY WORDS money market 货币市场 • money supply 货币供给 • demand for money 货币需求 • money 货币 • nominal interest rate 名义利率

Objective

Build the skills to answer exam questions on **the money market**.

You must be able to:

- describe the **demand for money 货币需求** as downward-sloping in the nominal interest rate
- treat the **money supply 货币供给** as set by the central bank (vertical)
- determine the **equilibrium nominal interest rate** and analyse shifts

1 Worked examples

Study these first. Each one shows the method for a question type used later.

Money demand

The demand for money slopes **downward** in the nominal interest rate: a higher rate is a bigger opportunity cost of holding cash, so people hold **less**.

Money supply

Set by the **central bank**, so it is drawn **vertical** (independent of the interest rate).

Equilibrium

Where money demand meets money supply — this fixes the equilibrium **nominal interest rate**. More money supply → lower rate.

2 Practice

2.1 State why the demand for money slopes downward. [1]

2.2 State the shape of the money-supply curve, and why. [1]

2.3 State what happens to the interest rate if the central bank increases the money supply. [1]

3 Exam-style questions

3.1 The money-supply curve is [1]

A upward-sloping
B downward-sloping
C vertical
D horizontal

3.2 An increase in the money supply lowers the [1]

A price level directly
B nominal interest rate
C real GDP directly
D reserve ratio

3.3 The central bank increases the money supply.

(a) State the effect on the nominal interest rate. [1]

(b) State the effect on investment spending. [1]

(c) State the effect on aggregate demand. [1]