AP MACROECONOMICS • EXERCISE SHEET

4.6 Monetary Policy

Name: ____________ Class: ________ Date: __________ **Total: 9 marks**

KEY WORDS monetary policy 货币政策 • discount rate 贴现率 • open-market operations 公开市场操作 • contractionary (tight) 紧缩性 • expansionary (easy) 扩张性

Objective

Build the skills to answer exam questions on **monetary policy**.

You must be able to:

- define **monetary policy 货币政策** as the central bank's control of the money supply and interest rates
- distinguish **expansionary** (easy) from **contractionary** (tight) monetary policy
- describe the tools: **open-market operations 公开市场操作**, the reserve requirement, and the discount rate
- trace how a change in interest rates affects investment, AD, and output

1 Worked examples

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

■ Monetary policy

The central bank's control of the **money supply** and **interest rates** to steer the economy.

■ Expansionary vs contractionary

- **Expansionary** — buy bonds, cut the reserve ratio or discount rate → rates **down** → AD **up** (fights recession).
- **Contractionary** — the reverse (fights inflation).

■ The tools and transmission

Open-market operations, the **reserve requirement**, and the **discount rate**. Lower rates → more investment → higher AD → higher output.

2 Practice

2.1 Define monetary policy. [1]

2.2 Name the three tools of monetary policy. [2]

2.3 State the monetary policy used to fight a recession. [1]

3 Exam-style questions

3.1 To conduct expansionary monetary policy, a central bank [1]

A	B
C	D

A sells bonds
B buys bonds
C raises the reserve ratio
D raises taxes

3.2 When the central bank buys bonds, interest rates [1]

A	B
C	D

A rise
B fall
C stay the same
D become negative

3.3 A central bank wants to reduce high inflation.

(a) Name the type of monetary policy it should use. [1]

(b) State one tool and how it would be used. [2]