2. Assume the economy of Jenland is in short-run equilibrium at a real output level above full-employment real output.

A. The banking system in Jenland has ample reserves. Identify a specific monetary policy action that the central bank of Jenland would implement to return the economy to full employment in the short run.

B. Draw a correctly labeled graph of the reserve market for Jenland, and show the effect of the central bank's action identified in part A on the policy rate.

C. Based on the change in the interest rate shown on your graph in part B, will each of the following increase, decrease, or remain the same in Jenland in the short run?

i. The price of previously issued bonds

ii. The price level. Explain.

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2. The Federal Reserve can influence the supply of money.

(a) Assume that the Federal Reserve targets a lower federal funds rate.

(i) What open market operation can the Federal Reserve use to achieve the lower target?

(ii) Given your answer to part (a)(i), what will happen to the price of government bonds?

(b) Using a correctly labeled graph of the money market, show the effect of the open market operation from part (a)(i) on the nominal interest rate.

(c) Assume that the Federal Reserve buys government bonds from commercial banks. Based only on this transaction, will the level of required reserves in the commercial banks increase, decrease, or remain the same?

(d) Another monetary policy action involves changing the discount rate. Define the discount rate.