

Macro Module 12 + 13 Readings

(The attached PDF file has better formatting.)

Chapter 10: The Demand for Money and the Price Level (Modules 12 and 13)

Read pages 171-174. Skip the “Back to Reality” boxes on pages 172 and 173 and the tables on pages 174 and 175. Focus on the monetary base, M1 and M2 (pages 172-173). Know what fiat money, commodity money, and legal tender mean, but the specific examples are not tested on the final exam.

Read “The Demand for Money” on pages 174-177; skip the sub-section on the empirical evidence on the demand for money on pages 178-179. The homework assignment deals with the effects of interest rates and transaction costs. Know how interest rates, real GDP, transaction costs, and other items affect the demand for money. Key equation 10.2 on the bottom of page 177 gives the nominal demand for money. This equation uses the nominal interest rate, not the real interest rate, so it differs from other equations in the textbook.

Read pages 179-188. Focus on the subsections regarding the neutrality of money, a change in the nominal quantity of money (i.e., in the supply of money), and a change in the demand for money. Skip “Back to Reality” on page 184.

Key equation 10.5 on page 179 looks like key equation 10.2 on page 177.

- For equation 10.2, the real demand for money changes to satisfy the relation.
- For equation 10.5, the price level changes to satisfy the relation.

The homework assignment covers the seasonal fluctuation in the price level caused by changes in the demand for money.

Understand the concept of general equilibrium. Know how changes in various input variables affect the price level, inflation, nominal wage rates, and nominal interest rates.

Focus on the subsections regarding cyclical behavior of money and seasonal variations in money. The homework assignment covers the seasonal fluctuation in the price level caused by changes in the demand for money. The FED varies the money supply to offset this seasonal fluctuation, so you don't notice it.

Review Question A.2 on pages 188. Explain how each of these variables affects the real demand for money. Part A.2.e refers to the price level, not the inflation rate. The inflation rate affects the nominal interest rate (in Part A.2.a); the price level does not.

Review Question A.3 on page 188. This question says that money is neutral.

Review Questions B8, B9, B10, B11, B12, and B13 on pages 188-189. The homework assignments and the final exam problems cover these topics.