Note: the best way to study for the exam is to:

* Start by reading the lecture notes twice (if you don´t, your study will be of a much lower quality).
* And then answer the weekly questions.

The answers of Week 11’s questions should be handed to me **at the beginning of the exam.** They should be **manuscript (not typewritten)** and preferably based on schemes (as I do in the slides). Keep a copy for yourself.

Please write **WEEK 11 in bold** at the beginning of your answers.

**Week 11**

**L21: Jp’s stagnation of 1992-2007**

**1.** Explain the factors behind the evolution of the Japanese money stock in 1998-2007.

**2. a)**Explain thefactors behind the evolution of the US money stock in 1929-33.

b) How do these compare with the factors behind the evolution of the Japanese money stock in 1998-200?

**3. a)** Explain thefactors behind the evolution of the US money stock in 1933-36.

b) How do these compare with the factors behind the evolution of the Japanese money stock in 1998-2007?

**4.** Explain what led to the credit crunch observed in America in the early 1990s.

**5.** What were the three consequences of that credit crunch?

**6.** What led to the eventual end of the credit crunch?

**7.** Did Jp firms stopped obtaining new loans and started paying down their debts because banks were *forced* to do that? Explain.

**L22: Trade imbalances and the stock of money.**

**8.a)** Why can’t the interest rate of the Interbank Money Market (henceforth, MM) be higher than the CB interest rate?

**b)** Why can’t the interest rate of the Interbank Money Market (henceforth, MM) be lower than the CB interest rate?

**9. a)** In a country with a trade deficit, what is the relation between expenditure and output?

**b)** In a country with a trade surplus, what is the relation between expenditure and output?

**10. a)** What does the exogenous view of money say?

**b)** What determines M1 according to the endogenous view of money?

**11.** In a country with a trade deficit:

a) There is an initial increase in M1. Why? In which two possible ways?

b) Funded through dollar loans from foreign banks, what ends up happening to M1 in both systems of exchange rates? Explain.

c) Not funded through dollar loans from foreign banks, what ends up happening to M1 in flexible exchange rates? Explain.

**12.** In a country with a trade deficit under fixed rates:

a) Endogenous view of money, what happens to M1? Explain.

b) Exogenous view of money, what happens to M1? Explain.

c) Exogenous view of money, if the CB sterilizes the effect of a trade deficit on the amount of reserves held by banks, what happens to M1? Explain.

d) How does the CB carries out such sterilization?

**13.** Consider the trade deficits of Pt and the trade surpluses of G in the EZ.

a) Explain what happens throughout the process with M1 in Pt. Why doesn’t M1 fall as Hume thought?

b) Explain what happens throughout the process with M1 in G. Why doesn’t M1 rise as Hume thought?

**L23: Ch. 1: trade imbalances and the stock of money.**

**14.**Consider flexible exchange rates. What is the effect of a trade surplus in the EZ and a trade deficit in the US on the quantity of M1 in the two regions? Explain the changes observed throughout the process and the overall effects.

**15.** Consider now **fixed** exchange rates. According to the:

a) Endogenous view of money, what is the effect on M1 of a trade surplus in the EZ? Explain.

b) Exogenous view of money, what is the effect on M1of a trade surplus in the EZ? Explain.

c) Exogenous view of money, if the CB sterilizes the effect of a trade surplus on the amount of reserves held by banks, what happens to M1? Explain.

d) How does the CB carries out such sterilization?

**16.** What happens to the amount of dollars of EZ banks and of the ECB if the EZ has a trade surplus and it operates under:

a) Flexible rates. Explain.

b) Fixed rates. Explain.

**FP under covid**

**17.** Why did output fall during covid?

**18.** Output could have fallen by more than it actually did. How?

**19.** a) How was that **further** decline in output prevented? Explain.

b) Did CBs play any role? Explain.