

## Practice Problems: Money Markets and FOREX Market

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If your complete answer requires both short- and long-run answers, please supply both.

1. Analyze the effects of the Fed increasing the money supply. Show the results in the money market and the Forex market. At the end, include time paths for  $M$ ,  $P$ ,  $m$ ,  $i$ , and  $E$ .
2. Analyze the effects of the foreign central bank increasing the money supply. Show the results in the money market and the Forex market. At the end, include time paths for  $M$ ,  $P$ ,  $m$ ,  $i$ , and  $E$ .
3. Analyze the effects of the Fed decreasing the money supply. Show the results in the money market and the Forex market. At the end, include time paths for  $M$ ,  $P$ ,  $m$ ,  $i$ , and  $E$ .
4. Analyze the effects of the foreign central bank decreasing the money supply. Show the results in the money market and the Forex market. At the end, include time paths for  $M$ ,  $P$ ,  $m$ ,  $i$ , and  $E$ .
5. Analyze the effects of everyone suddenly expecting the exchange rate to increase. Show the results in the money market and the Forex market. At the end, include time paths for  $M$ ,  $P$ ,  $m$ ,  $i$ , and  $E$ .