

Practice Problems:**Credibility, Expectations and Anticipated vs. Unanticipated Policy.**

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Money and FOREX Markets

1. Consider the effects in both the money and the FOREX market of an unanticipated increase in the money supply. (Include time paths).
2. Consider the effects in the money and the FOREX market of an anticipated increase in the money supply. (Include time paths).
3. Consider the effects in the money and the FOREX market of an unanticipated decrease in the money supply. (Include time paths).
4. Consider the effects in the money and the FOREX market of an anticipated decrease in the money supply. (Include time paths).
5. Suppose the central bank announces an increase in the money supply.
 - a. Consider the case where market participants believe the central bank is credible and the central bank actually increases the money supply (as they announced).
 - b. Consider the case where market participants do not believe the central bank and the central bank actually increases the money supply (as they announced).
 - c. Consider the case where market participants believe the central bank is credible but the central bank does not actually increase the money supply. What will happen the next time the central bank announces a change in the money supply?
 - d. Consider the case where market participants do not believe the central bank but the central bank does not actually increase the money supply. What will happen the next time the central bank announces a change in the money supply?
6. For practice you can do # 5 a – d for an announced decrease in the money supply.

Temporary vs. Permanent

7. Consider the case of an increase in the money supply that is anticipated to be temporary (and actually is temporary – i.e., the central bank eventually lowers the money supply again) versus one that is permanent and anticipated to be so.

Aggregate Supply – Aggregate Demand

8. Consider the effects in an AS-AD diagram of an anticipated and permanent increase in the money supply. Show both short and long-run effects.