

Homework 9 – KEY

Average: 83.28 + Opts GI bonus

Due on 31/3/2026, by 23:00

The tasks in this assignment were designed for the average student to solve independently after mastering the material. The answers provided here are written in an instructional manner to help you understand the problem-solving process for each task. If you continue to struggle with a task after reviewing this key, the difficulty may stem not from the task itself, but from having missed or overlooked some parts of the required material.

1. ✓ Tech Byte magazine posted an article under the title: “Apple’s CEO salary in 2020 was \$1,225,000 per month”. How is money used in this statement?

91%A. **Unit of account.**

- B. Medium of exchange.
- C. Store of value.
- D. All of the above.
- E. None of the above.

[Money is used here as a means of counting the value of the CEO’s salary]

2. ✓ How will the demand of M1 money be affected in Singapore, if the government bans transactions with cryptocurrencies?

90%A. **It will increase.**

- B. It will decrease.
- C. It will not be affected.

[If some (legal) transactions are served by cryptocurrencies but then cryptocurrencies are banned, people will need M1 to keep doing those transactions]

3. * Which of the following will decrease the demand for M1 money, ceteris paribus?

66%A. **An increase in the real interest rate.** *[Interest rate is the “price” of money. Thus, it should not affect its demand, but its quantity demanded]*

B. An increase in the real GDP. *[If there is more output, more money will be needed for transactions]*

32%C. **A decrease in prices.** *[If output is cheaper, people will need less money to do their transactions]*

D. A decrease in money supply. *[Money supply does not affect the money demand curve]*

4. Suppose that real GDP has grown and the Central Bank responds by increasing M1. Which of the following could be the reason for the increase in M1?

A. To stimulate employment. *[With GDP growing, employment stimulus is unnecessary]*

B. To stimulate productivity. *[M1 adjustments cannot influence productivity]*

25%C. To keep inflation down. *[An increase in M1 raises inflationary pressures]*

71%D. **To prevent deflation.** *[Because $\text{inflation} = \text{growth of } M_s - \text{growth of Real GDP}$, if the Central Bank did not adjust the money supply, inflation would be negative]*

5. ✓ In periods of high inflation, which of the following societal groups is LESS affected?

A. Pensioners.

B. Private school teachers.

C. Police personnel.

93%D. **Freelancers.**

[Freelancers have the flexibility to negotiate their fees on an ongoing basis, while all others are in some sort of contract]

- 6[✓] Which of the following could be a reason for the Central Bank to decrease the real interest rate?
- A. To expand credit to firms. *[Lower interest rates reduce borrowing costs, thus encouraging firms to take loans and expand their investments]*
 - B. To increase the M1 money that circulates in the economy. *[Lower interest rates encourage borrowing and spending, thus increasing money in circulation]*
- 88% C. Both A and B.**
- D. None of the above.
7. What prevents commercial banks from loaning out an infinite amount of money when reserves are scarce?
- A. That the Central Bank defines the real interest rate. *[The real interest rate affects borrowing incentives; it is not, per se, a binding constraint on commercial banks]*
 - B. That the Central Bank will not approve excess loans. *[The Central Bank does not approve individual bank loans]*
 - C. That inflation would increase. *[Higher inflation may follow excessive lending; it does not prevent it]*
- 70% D. That the Central Bank defines a Reserve Ratio for commercial banks.** *[The RR limits how much banks can lend relative to their reserves, directly preventing infinite lending]*
- 21% E.** That the total money supply is limited by the Central Bank. *[It does not directly constrain commercial banks' lending capacity]*
- 8[✓] What prevents commercial banks from loaning out an infinite amount of money when reserves are ample?
- A. That the Central Bank will not approve excess loans. *[The Central Bank does not approve individual bank loans]*
- 93% B. That a finite amount of loans is demanded at the set real interest rate.** *[Borrowers' willingness to take loans actually limits lending]*
- C. Both A and B.
 - D. None of the above.
- 9[✓] Which of the following best describes the Phillips curve?
- 97% A. Inflation and unemployment change in opposite directions in the S-R.**
- B. Inflation and unemployment change in the same direction in the S-R.
 - C. Inflation and unemployment change in the same direction in the L-R.
 - D. Inflation and unemployment change in opposite directions in the L-R.
- [According to the Phillips relationship, there is a short-run trade-off between inflation and unemployment: when unemployment is low, inflation tends to be high, and vice versa]*
- 10[✓] Which of the following is a reason why money demand is negatively sloped?
- 98% A. The real interest rate is the opportunity cost of holding M1 money.** *[This explains why an increase in the interest rate lowers the quantity demanded for money]*
- B. Firms and households save more when the economy grows. *[This explains shifts in money demand, not why it slopes downward]*
 - C. Inflation is positively correlated with demand for M1 money. *[This also explains shifts in money demand]*
 - D. Individuals will always want to hold more M1 money. *[People substitute away from M1 when its opportunity cost increases]*