Week 10 Recitation

This week's recitation is the last recitation before Exam 2, so we will be reviewing the material we learned so far. First, we are going to practice some problems together, related with this week's material. After that, we will play with Kahoot! to see how sharp you are with the concepts you'll need to know for your second midterm.

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1) The table below represents the initial T-account for NoCo Bank, which has $480 million in assets—divided in reserves, bonds and loans—and $450 million in liabilities—all in the form of deposits—, which makes the bank's net worth equal to $30 million.

Assets		**Liabilities + Net worth**	
Reserves	$20 million	Deposits	$450 million
Bonds	$160 million		
Loans	$300 million	Net worth	$30 million

a) Suppose that the Central Bank decides to do an open market operation, so they purchase $10 million in bonds from NoCo Bank. How will that operation impact the bank's assets, liabilities and net worth? How does the new T-account look like?

b) Now, assume that NoCo Bank does not want to hold those $10 million as reserves, so they decide to lend that money for their clients. How will that operation impact the bank's assets, liabilities and net worth? How does the new T-account look like?

c) How does this open market operation change the money supply of the economy as a whole, assuming that all the new loans were stored under their mattresses by NoCo Bank's clients, instead of deposited in other banks?

d) Assuming that the price level is constant and equal to one, the velocity is also constant and equal to two, and the initial money supply was $600 million, what's the impact of that monetary policy on Real GDP?