

EC303: Money and Banking

In-class exercise 14

Spring 2022

Work in groups of 2-3 to answer the following questions.

Exercise 1

Where does the demand for reserves come from? Draw the demand curve for reserves with proper labels.

Exercise 2

Where does the supply of reserves come from? Draw the supply curve for reserves with proper labels.

Exercise 3

Now use your answers from exercise 1 and 2 to show how the federal funds rate is determined.

Exercise 4

Using the equilibrium graph from exercise 3, show how OMO affects federal funds rate.

Exercise 5

Using the equilibrium graph from exercise 3, show how changes in discount rate affect federal funds rate.

Exercise 6

Using the equilibrium graph from exercise 3, show how changes in required reserves affect federal funds rate.

Exercise 7

Using the equilibrium graph from exercise 3, show how changes in interest paid on excess reserves affect federal funds rate.