



AP MACROECONOMICS UNIT V FRIEDMAN and MONETARISM			
UNIT OF STUDY	UNIT OBJECTIVES	READINGS FROM KRUGMAN	GRAPHS
<ol style="list-style-type: none"> 1. Monetarism <ol style="list-style-type: none"> a. Definition of Money b. Money and Banking c. Determinants of Demand for Money d. Money Supply e. Interest Rates and the Money Market 2. Monetary Policy <ol style="list-style-type: none"> a. Money Multiplier b. The Tools of Federal Policy <ol style="list-style-type: none"> i. Open Market Transactions ii. Discount Rate iii. Reserve Ratio 3. Using Fiscal and Monetary Policy 	<ol style="list-style-type: none"> 1. Define and explain the functions of money 2. Explain what determines the value of money 3. Define and contrast the definitions of M1, M2, and M3 4. Define and compare Required Reserves and Excess Reserves 5. Explain how the banking system creates money 6. Calculate the Money Multiplier 7. Define and explain Open Market Operations 4. What is the difference between the Federal Funds Rate and the Discount Rate? 5. Evaluate the effectiveness of the three main tools of Monetary Policy 6. Write and explain the Equation of Exchange 7. Contrast the Keynesian and Monetarist views 8. Given a series of data, identify the economic problem and prescribe the proper Monetary Policy to correct that problem 9. Compare and contrast the effectiveness of Monetary and Fiscal Policy 10. Discuss the various problems and tradeoffs that policymakers face in the real world 	<p><u>Module 23</u>, pp. 231-235 Money</p> <p><u>Module 25</u>, pp. 243 – 251: Fiscal Policy</p> <p><u>Module 26</u>, pp. 253 – 260 The Federal Reserve</p> <p><u>Module 27</u>, pp. 262-266: Tools of the Fed</p> <p><u>Module 28</u>, pp. 268 – 275: Money Market</p> <p><u>Module 30</u>, pp. 296 – 305: Problems of Fiscal Policy</p> <p><u>Module 31</u>, pp. 307 – 313: Monetary Policy</p> <p>SUPPLEMENTAL SOURCES <i>The Monetarist Battle</i> -Buchholz</p> <p>MEDIA Economics USA #9 Economics USA #13 Fight of the Century</p>	<p>The top graph shows the money market. The vertical axis is 'Real interest rate' with values 8 and 10. The horizontal axis is 'QUANTITY'. Two vertical money supply curves, MS1 and MS2, are shown. A downward-sloping money demand curve MD is also shown. Point E is at the intersection of MS1 and MD (interest rate 10). Point F is at the intersection of MS2 and MD (interest rate 8).</p> <p>The bottom graph shows the investment market. The vertical axis is 'Real interest rate' with values 8 and 10. The horizontal axis is 'Spending' with values 100 and 120. A downward-sloping red curve labeled 'INVESTMENT' is shown. A horizontal blue line at interest rate 10 intersects the investment curve at a spending level of 100 (Point E). A horizontal blue line at interest rate 8 intersects the investment curve at a spending level of 120 (Point F).</p> <p>The bottom graph shows the relationship between savings and investment. The vertical axis is 'Real interest rate' and the horizontal axis is 'GDP'. An upward-sloping black curve labeled 'savings' is shown. A horizontal black line labeled 'investment' is shown. A vertical dashed line indicates the equilibrium GDP level where savings equals investment.</p>