Definitions:

Be able to discuss the and define the following:
The money supply: M1, M2             The Federal Reserve
liquidity                            Primary vs. Secondary claims markets
full bodied money/commodity money    Money vs. Capital markets
fiat money                           Present value
Yield to maturity                   Financial instruments
Financial intermediary              Real vs. Nominal interest rates
Fiscal vs. Monetary policy          Fisher hypothesis
Capital gains/losses                Interest rate and bond prices
Loanable funds market               Bond market/demand and supply
Supply and demand for loanable funds Federal budget deficit
Ricardian equivalence               Default risk
Risk premium                        Junk bonds
Government securities: bills, notes, bonds Federal funds
barter economy                      Commercial paper
Monetizing the deficit              Crowding out
Theories of the term structure of interest rates:
                                          Segmented markets
                                          Expectations

1. What are the three basic functions which something must possess if it is to effectively serve as money?

2. What are the advantages to a small saver (such as you or I?) in buying shares in a money market mutual fund or putting money in a certificate of deposit relative to conducting our own individual transactions in the money market?

3. If market interest rates rise, what will happen to:
   a) Bond prices
   b) the supply of loanable funds
   c) The present value of assets.
   d) Investment spending

4. If there is an increase in expected inflation, what will this do to:
   a) The demand for loanable funds.
   b) The supply of loanable funds.
   c) The term structure of interest rates.
5. What do we mean by twisting the yield curve? How could the government try to implement this? Under which of the theories of the term structure would twisting of the yield curve be most likely to succeed?

6. How does a recession tend to affect:
   a) The overall level of interest rates
   b) The risk premium between risky and risk-free bond

7. If the federal Reserve purchases bond in the open market, what will this do to:
   a) Bond prices.
   b) Interest rates
   c) the national debt

In addition to items on this review sheet, please review all worksheets, quizzes, homework and end of the chapter problems.