



## ECO 1311, University of Dallas Monetary Policy-- Practice Problems

1. If the reserve requirement is 20% and \$1000 is deposited in a bank, by how much additional money can the bank invest in the economy?
2. In 2018, the Federal reserve conducted monetary policy with the goal of increasing interest rates. In 2019, the Federal reserve did the opposite and made moves to decrease interest rates. For each year, explain the following:
  - a. What sort of open market operations (i.e. buying or selling) should the Federal Reserve have authorized in order to achieve their goals?
  - b. What was the likely impact of the open market operations on the money supply and economic growth?
  - c. Which policy moves were most likely to be applauded by politicians? Why?
3. Describe similarities and differences in the Federal Reserve's monetary policy tools exercised during the 2007-2009 financial recession and the 2020 COVID-19 recession. Does an examination of the moves indicate a new path for monetary policy or new ways of using trusted monetary policy tools?

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Some problems have been extracted and/or adapted from:

- Cowen, Tyler, and Alex Tabarrok. *Modern principles of microeconomics*. Macmillan International Higher Education, 2015.
- Acemoglu, Daron, David Laibson, and John List. *Economics, global edition*. Pearson, 2015.
- Miller, Roger LeRoy. *Economics Today: The Micro View*. Pearson, 2018.