AP Macroeconomics

Review Sheet

Section 5: The Financial Sector

12.2.15

**Know all Graphs. If you need help with showing how certain things effect certain models come and find me!!**

Topics Covered

* **Module 22 – Saving, Investment, and the Financial System**
	+ - Savings – Investment spending identity
		- The three tasks of the Financial System are:
		- Four major types of Financial Assets
		- Three different financial intermediaries
* **Module 23 – The Definition and Measurement of Money**
	+ - Three Roles of money are:
		- The two kinds of money we have are:
		- The Federal Reserve calculates the size of two monetary aggregates called M1 and M2. What is in each one?
* **Module 24 – The Time Value of Money**
	+ - The equation for the present value of money is:
		- Why do we use the present value of money?
* **Module 25 – Banking and Money Creation**
	+ - Banks use T-Accounts to measure their \_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_
		- Bank Reserves
		- **Required Reserve Ratio!!!**
		- **Excess Reserves**
		- The Problem of **Bank Runs**
		- Four ways in which the Fed regulates banks
		- **Money Multiplier:** How banks create money.
			* + The formula for the money multiplier is: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
		- Difference between the monetary base and the money supply
			* + Which does the Fed have control over?
* **Module 26 – The Federal Reserve System: History and Structure**
	+ - What is the Federal Reserve?
		- The Fed is made up of \_\_\_\_ Regional Banks and \_\_\_\_ Board of Governors.
		- **The Fed was started as a result of the Panic of 1907**
		- The Fed is neither a part of government or a private institution
		- **What is special about the Federal Reserve New York Regional Bank?**
* **Module 27 – The Federal Reserve: Monetary Policy**
	+ - What are the four functions of the Fed?
		- The Fed has three main policy tools at its disposal to carry out monetary policy. They are (**one is very important**, *one is semi-important* and the third is almost never used):
		- Understand what open market operations are and how the Fed uses them.
			* + Buying and selling government debt
* **Module 28 – The Money Market**
	+ - Assume one interest rate – the nominal interest rate
		- **Money market shows the Opportunity Cost of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.**
		- Money demand curve is \_\_\_\_\_\_\_\_\_\_ sloping
		- The four factors that can shift the money demand curve are:
		- **Equilibrium Interest Rate – determined by the supply and demand for money**
		- The Money Supply Curve is vertical because:
		- The Money Supply Curve can only be shifted by:
* **Module 29 – The Market for Loanable Funds**
	+ - Again assume just one interest rate – the nominal interest rate
		- **This market brings together the \_\_\_\_\_\_\_\_\_\_ and the \_\_\_\_\_\_\_\_\_\_\_\_\_\_**
		- **RoR =** $\frac{ - }{ } x 100\%$
		- When will a business/individual want to borrow? RoR \_\_\_\_ r
		- The demand curve can be shifted by the following two things:
		- The supply curve can be shifted by the following two things:
		- Real interest rate = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
		- Explain what the Fisher effect is:
		- **The Money Market Model determines interest rates in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**
		- **The Loanable Funds Market determines interest rates in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**