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 =**
    - 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 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**