

## Basic Questions to Lecture 11

1. What is the difference between money and nominal GDP?
2. What is wealth and why is money part of wealth?
3. What is the meaning of the term "the demand for real money balances"?
4. What two important variables affect the demand for money?
5. How does monetary equilibrium determine the LM curve?
6. Define the LM curve clearly.
7. Suppose  $M = 1000$ ,  $P = 2$ , and real money demand is  $L = 4Y - 20r$ ,  
Now if  $Y = 150$ ,  $r = \underline{\hspace{1cm}}$ . If  $r = 8$ ,  $Y = \underline{\hspace{1cm}}$ ? Draw the LM curve.
8. Suppose  $M = 800$ ,  $P = 2$ , and real money demand is  $L = 4Y - 20r$ ,  
Now if  $Y = 125$ ,  $r = \underline{\hspace{1cm}}$ . If  $r = 8$ ,  $Y = \underline{\hspace{1cm}}$ ? Draw the LM curve.
9. Suppose  $M = 1000$ ,  $P = 4$ , and real money demand is  $L = 4Y - 20r$ ,  
Now if  $Y = 80$ ,  $r = \underline{\hspace{1cm}}$ . If  $r = 8$ ,  $Y = \underline{\hspace{1cm}}$ ? Draw the LM curve.
10. When  $M$  increases the LM curve shifts to the \_\_\_\_\_.  
When  $P$  increases the LM curve shifts to the \_\_\_\_\_.