

"The main purpose in studying economics is to avoid being fooled by economists." -Joan Robinson

Eco300 Macroeconomic Theory
09/20/2018 in-class activity

Name _____

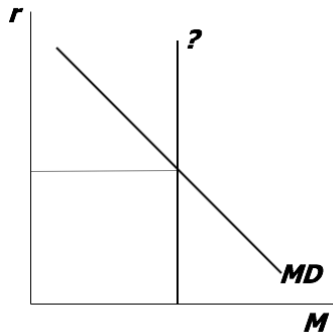
1. Read carefully the following article, state two of monetary policies, and analyze the effects of new monetary including appropriate graphs with right labels. In addition, fully discuss or explain why you have your specific analysis.

JP Morgan's top quant warns next crisis to have flash crashes and social unrest not seen in 50 years

- *J.P. Morgan's top quant, Marko Kolanovic, predicts a "Great Liquidity Crisis" will hit financial markets, marked by flash crashes in stock prices and social unrest.*
- *The trillion-dollar shift to passive investments, computerized trading strategies and electronic trading desks will exacerbate sudden, severe stock drops, Kolanovic said.*
- *Central banks will be forced to make unprecedented moves, including direct purchases of equities, or there could even be negative income taxes.*

Timing of when this next crisis will occur is uncertain but markets appear to be safe through the first half of 2019, he said. (Marko Kolanovic Crystal Mercedes | CNBC, PUBLISHED TUE. SEP. 4 201)

Suppose next financial crisis warned by J.P. Morgan's top quant, Marko Kolanovic happened next year. What kinds of monetary policy will you suggest to stimulate US economy under Great Liquidity Crisis?"



2. (**The money multiplier**) Case B: Suppose $B=500$ billion. Now due to financial crisis, cr suddenly become 0.8 and rr remains at 0.1. What is the money multiplier? What is the total money supply?

3. (**The money multiplier**) Case C: is also called high power money, Suppose $B=500$ billion. If cr remains at 0.4 and banks become more reluctant to lend and keep a lot of reserves in the bank and r is 0.4. What is the money multiplier? What is the total money supply?