Mankiw/Taylor Web site

Short Answer Questions
Chapter 30.

1. Outline the main determinants of the demand for money.

2. Assume that the central bank fixes the money supply. What would be the effect on the value and the quantity of money if the central bank cut the money supply? What would you expect to happen to the price level?

3. Explain the importance of the concept of monetary neutrality on economic policy making.

4. What is meant by the term 'velocity of circulation' and explain its relevance in the quantity equation.

5. Using examples, explain the meaning of the concept of an 'inflation tax'.

6. Explain why a rise in the money supply will be unlikely to affect the real interest rate in the long run.

7. Explain why economists consider inflation at too high a level to be a bad thing.

8. Is any inflation 'bad'? Explain your answer.

9. Examine the possible economic effects of deflation on an economy.

10. Consumers often complain about rising prices of products such as oil whereas analysts might tell them that in fact prices have not risen over the years at all but have in fact fallen. What explanation can you offer for this apparent contradiction.

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