

Suva Sangam College

Year 12

Economics

Worksheet 8

1. Multiple choice (Circle the best option)

Which of the following events will most likely cause an increase in the money supply?

- A. An increase in interest rate.
- B. An increase in real income.
- C. A decrease in required reserve.
- D. An increase in general price level.

2. Define the following terms:

- a) Money demand
- b) Money supply
- c) Precautionary demand for money

3. Use Irving Fisher's Equation and your own knowledge to answer questions (i) and (ii).

$$MV = PQ$$

(i) Assume an economy has nominal GDP of \$500 million and money supply of \$100 million, calculate V (Velocity of circulation) component of Fisher's Equation.

(ii) Which component of Fisher's Equation will be adjusted to balance the equation if there is an increase in price level (P)?