Economics 341 Spring 2009

Mid-Term Exam Wednesday, March 25

Instructions

1. This exam is to be taken in class. It is closed-book; no outside materials may be consulted. You may write your answers wherever you wish and may either use a word processor or write them by hand. However, if any errors or ambiguities are discovered in the questions, they will be announced only in Vollum 120.
2. Please answer the questions on separate sheets of paper in such a way that you can assemble them in numerical order.
3. You have until 2:05 to finish the exam. Time will be scarce; use it where its marginal product is highest. Try to get your main ideas written for every part of each question rather than elaborating at great length on any single answer.
4. You are responsible for making sure that you understand each question clearly. In case of any ambiguity, be sure to consult the instructor, who will be in his office and available by phone at 503-517-7308 or by email.
5. Please leave your answers on the front table if you finish early.

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1. The Great Depression was unique in its breadth, depth, and duration. Many factors have been accused of exacerbating the downturn, including each of the ones listed below. For each, explain briefly how it might have contributed to the severity of the Great Depression.

   a. The U.S. stock-market crash of 1929.
   b. Failures of and runs on (uninsured) banks in the United States.
   c. The dogmatic attempt to restore and maintain the international gold standard.
   d. Actual and expected price deflation.

2. What is the too-big-to-fail proposition? How has it been applied to banks in past and present financial crises and why has it been extended to non-banks in the present one? What problems does it cause? How, if at all, would you recommend changing the rules of the financial system to limit our susceptibility to problems related to institutions being too big to fail?

3. An increase in the rate of growth of the money supply is thought to increase growth in aggregate demand, leading to greater output in the short run and higher inflation in the long run. Why does monetary policy affect aggregate demand? Does this effect occur through more than one channel? Explain.