Economics 341 Fall 2010

Mid-Term Exam Due: 2:10pm, Friday, November 5

Instructions

1. This exam is take-home, open-book, and open-notes. Electronic submissions as email attachments (in Word or pdf format) are preferred, unless you use a lot of drawn diagrams. If you prefer to submit a paper exam (either printed or hand-written) you may do so in class.
2. You may not communicate in any way with anyone other than the instructor about the exam or the questions. It is to be done strictly on an individual basis.
3. I probably don't have to say this, but an unfortunate incident a few years back compels me to include it: Reserve and library materials relevant to this course are to be kept available for all students during the period of the exam. Anyone who keeps library materials past the time that they are due or otherwise makes them unavailable to other students is committing a most serious violation of the Reed Honor Principle. Any violations of the honor principle will be sent to the Student Judicial Board, which can recommend punishments as severe as suspension or expulsion from Reed.
4. You are responsible for making sure that you understand each question clearly. In case of any ambiguity, be sure to consult the instructor.
5. There is no specific page or time requirement or limit on your answers. Be complete but *concise;* excessive verbosity will not be rewarded. Your answers are due by class time on Friday, November 5.
6. Use quotations where they are useful. Be sure to cite appropriately.

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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. Use quotations from or citations to the prominent literature where appropriate to support your argument.

   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 was extended to non-bank financial institutions in the recent 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. If the Federal Reserve decides to tighten monetary policy, what exactly does it do? Explain in detail how these actions may affect the banking system, aggregate demand, and real activity (GDP) in the short run, including multiple channels of effects if appropriate. You may wish to include both theoretical models and empirical evidence in your analysis.