

### **Midterm 2 material**

Midterm 2 covers class material given in Lectures 11 through 27, including Homeworks 3 and 4, and material in Chapters 6, 7, 8, 9 and 12 of the main textbook. Some of the topics, concepts, problems in Midterm 2 includes (but is not limited to) the following:

1. Model with capital. Coexistence of money with other assets (that are perfect substitutes). Rate-of-return equality.
2. Nominal interest rates. Effect of anticipated inflation on nominal interest rate. Fisher effect.
3. Risky and safe assets. Risk aversion and risk neutrality. Expected return. Risk premium.
5. Liquid and illiquid assets. 3-period OLG model with money and capital.
6. Arbitrage. Financial intermediation. Inside money. Banking in competitive equilibrium.
8. Reserve requirements. Model with reserve requirements. Bank's balance sheet. Effects of reserve requirements on the economy (money stock, price level, seignorage, rate of return on deposits, intermediated investment, output).
9. Monetary aggregates. Money multiplier.
10. Central bank lending. Bank's balance sheet. Effects of central bank lending on the economy.
11. Correlation of money supply and output. A model of inside and outside money. The choice of using currency versus checks.
12. Effects of a change in deposit-to-currency ratio on the economy (including examples of unanticipated change in return on capital, transaction cost, anticipated change in money stock growth). Role for monetary policy.
13. Demand deposit banking. A model of demand deposit banking. Bank runs. Preventing bank runs.
14. Risk asset and bank failures. Protecting against asset risk. Bank capital. Bank's balance sheet. Deposit insurance. Preventing excessive risk-taking.