

**Finance 30220**  
**Problem Set #7**

- 1) Suppose that computerization permanently improves labor productivity in the US. Explain the impact using the IS-LM-FE framework. How would your answer change if this productivity improvement was perceived to be temporary?
- 2) Suppose that consumer confidence falls, causing consumers to save more. Explain the impact using the IS-LM-FE framework.
- 3) Suppose improvements in payment technologies (ATMs, online banking, online bill paying, etc.) cause a drop in money demand. Using the IS/LM/FE framework, analyze the short term and the long term effects.
- 4) In the 1970's, the U.S. was in the midst of a recession. Output was down and unemployment was at 6%. Nixon, undoubtedly looking towards the 1972 election decided that a new "game plan" was needed to boost the economy without worsening inflation. His solution was a temporary freeze on prices along with an expansionary monetary policy. During the price freeze, output rose by 5% and unemployment fell (Nixon won the '72 election in a landslide). However, after the price controls were lifted, output fell and prices skyrocketed. How would you explain the apparent success and ultimate demise of this policy?
- 5) Suppose that the Federal Reserve contracts the money supply by 10%.
  - a) What would be the immediate effect of a monetary contraction by the Federal Reserve (i.e. before prices can adjust)?
  - b) What would be the long run effects (i.e. greater than one year)?