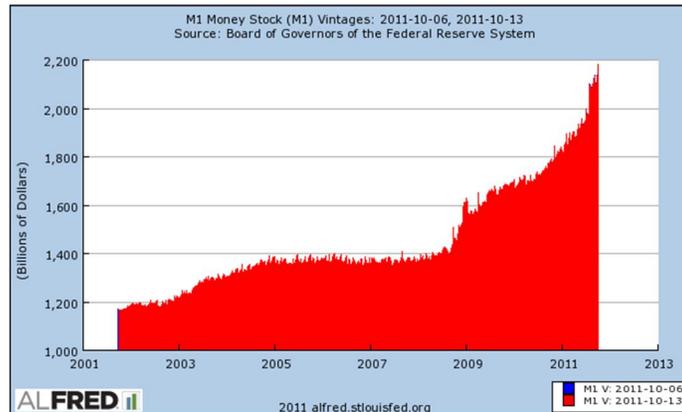


FINC 310
Money and Capital Markets
Phase 5 Individual Project Assignment

Points Possible: 250

As shown in the chart below, the money supply (i.e., M1) in the U.S. has increased substantially from the end of 2008 to today.



For the Phase 5 IP, I want you to write a paper of no longer than 2 pages (single spaced, 12 pt. Times New Roman font, one inch margins on all sides) exploring the causes and effects of this event.

Divide your paper into sections as follows:

1. How has the Federal Reserve accomplished this massive increase in the money supply (specifically, what tool or tools has the Fed used to increase the amount of coin/currency and demand deposits in the economy)? Describe in detail the specific action (or actions) taken by the Fed to create this large increase in M1 including start and end dates of specific actions.
2. Why has the Federal Reserve chosen to pursue this policy? That is, what economic and political events moved the Fed to take this action?
3. According to Monetary Theory (specifically, the equation of exchange: $MV = PQ$), what are the expected short term and long term consequences of this policy with regards to the aggregate price level (i.e., P) and GDP growth (i.e., Q) according to: (1) Keynesians and (2) Monetarists? To adequately accomplish this part of the task, you will need to explain the Keynesian view of monetary policy and the Monetarist view of monetary policy vis-à-vis the equation of exchange.
4. Using the equation of exchange, explain why the increase in the money supply has had no discernible impact (at least so far) on either P or Q. What do you think has caused this shift in behavior?
5. What are your predictions for the U.S. economy (inflation, joblessness, GDP growth, etc.) over the next two years? Why? (Note: this last question is purely your thoughts about the subject so there is no right or wrong answer to this question).

Each section of the paper will be equally weighted (that is, each section represented by questions 1 through 5 above is worth 50 points). Please contact me via email if you have any questions about the assignment or ask questions in the chat session tonight.