Write in the box the number of the question you are answering on this page as it is designated in the exam.

2

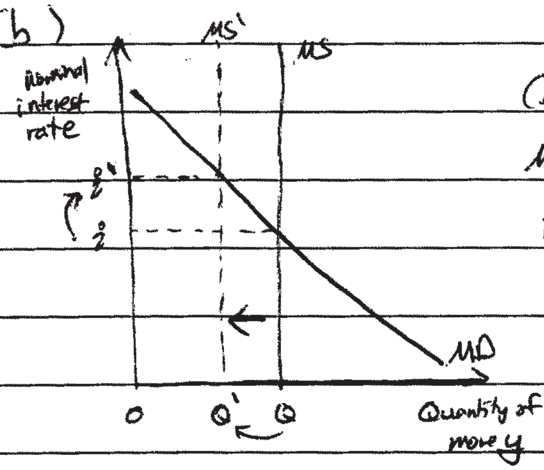
2A

2 (a)

(i) The total change in reserves in the banking system is \$50 million decrease.

(ii) The maximum possible change in the money supply is \$500 million decrease.

(b)



Central bank's bond sale shifts Money Supply curve to the left which increases the nominal interest rate

(C) Central bank's bond sale decreases the equilibrium price level in the short run since Aggregate demand decreases when central bank sells bonds.

(d) The people with fixed incomes are better off because the price level decreases while their income is constant, which allows them to be able to purchase more goods & services.