

SOLUTIONS MANUAL

MISHKIN

The Economics of Money, Banking,
and Financial Markets

BUSINESS SCHOOL EDITION



THIRD EDITION

PART ONE

How to Use the Instructor's Manual and Other Textbook Ancillaries

Organization of the Instructor's Manual

To help instructors cope with the increased demands for good teaching in recent years, *The Economics of Money, Banking, and Financial Markets*, Business School Edition, Third Edition, includes the most comprehensive package of supplementary materials of any money, banking, and financial markets textbook. As part of these supplemental materials, I have designed the Instructor's Manual to help save you time in preparing class materials, such as class outlines, solutions to homework problems, lecture notes, and overhead transparencies.

This Instructor's Manual is divided into four parts. Part One discusses how to use the Instructor's Manual and the other textbook ancillaries to make your teaching of the money and banking course both more effective and less time-consuming. Part Two contains an overview of all the textbook chapters along with teaching tips that I have found effective. Part Three contains the answers to the end-of-chapter problems for use by the instructor to prepare solution sets for the problems he or she assigns to the students as problem sets. Part Four contains transparency masters of chapter outlines, which can be used either to make overhead transparencies for use in class or to make handouts for the students.

To obtain any of the available ancillaries, adopters of the text just need to get in touch with their Pearson sales representative, or alternatively they can visit the Instructor's Resource Center at www.pearsonhighered.com/irc.

Alternative Course Outlines

There are many different ways to teach a course on money, banking, and financial markets. For this reason, the material in *The Economics of Money, Banking, and Financial Markets*, Business School Edition, has been arranged with flexibility in mind, so that many teaching styles can be accommodated. The following sections suggest sample outlines for four main approaches to teaching money, banking, and financial markets, showing how the text can be adapted to each approach, as well as to quarter and semester teaching schedules. Note, however, that many variations on these outlines are possible.

■ Outline for General Money and Banking Course

Core Chapters

Chapter No. Chapter Title

1. Why Study Money, Banking, and Financial Markets?
2. An Overview of the Financial System
3. What Is Money?
4. Understanding Interest Rates
5. The Behavior of Interest Rates
10. Banking and the Management of Financial Institutions
11. Economic Analysis of Financial Regulation
12. Banking Industry: Structure and Competition
16. Central Banks and the Federal Reserve System
18. Tools of Monetary Policy
19. The Conduct of Monetary Policy: Strategy and Tactics
23. Aggregate Demand and Supply Analysis
24. Monetary Policy Theory

For a one-semester course, cover any six of the following optional chapters:

Chapter No. Chapter Title

6. The Risk and Term Structure of Interest Rates
7. The Stock Market, the Theory of Rational Expectations, and the Efficient Markets Hypothesis
8. An Economic Analysis of Financial Structure
9. Financial Crises
13. Nonbank Finance
14. Financial Derivatives
15. Conflicts of Interest in the Financial Industry
17. The Money Supply Process
20. The Foreign Exchange Market
21. The International Financial System
22. Quantity Theory, Inflation, and the Demand for Money
25. Transmission Mechanisms of Monetary Policy

A one-quarter course would probably only include one or two of the optional chapters unless some of the chapters on central banking and the conduct of monetary policy (Chapters 16, 18, and 19) were deleted.

■ Outline for General Money and Banking Course with an International Emphasis

Core Chapters

Chapter No.	Chapter Title
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- | | |
|-----|--|
| 1. | Why Study Money, Banking, and Financial Markets? |
| 2. | An Overview of the Financial System |
| 3. | What Is Money? |
| 4. | Understanding Interest Rates |
| 5. | The Behavior of Interest Rates |
| 10. | Banking and the Management of Financial Institutions |
| 11. | Economic Analysis of Financial Regulation |
| 12. | Banking Industry: Structure and Competition |
| 16. | Central Banks and the Federal Reserve System |
| 18. | Tools of Monetary Policy |
| 19. | The Conduct of Monetary Policy: Strategy and Tactics |
| 20. | The Foreign Exchange Market |
| 21. | The International Financial System |
| 23. | Aggregate Demand and Supply Analysis |
| 24. | Monetary Policy Theory |

For a one-semester course, cover any four of the following optional chapters:

Chapter No.	Chapter Title
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- | | |
|-----|---|
| 6. | The Risk and Term Structure of Interest Rates |
| 7. | The Stock Market, the Theory of Rational Expectations, and the Efficient Markets Hypothesis |
| 8. | An Economic Analysis of Financial Structure |
| 9. | Financial Crises |
| 13. | Nonbank Finance |
| 14. | Financial Derivatives |
| 15. | Conflicts of Interest in the Financial Industry |
| 17. | The Money Supply Process |
| 22. | Quantity Theory, Inflation, and the Demand for Money |
| 25. | Transmission Mechanisms of Monetary Policy |

A one-quarter course would probably not include any other chapters unless some of the chapters on central banking and the conduct of monetary policy (Chapters 16, 18, and 19) were deleted.

■ Outline for Financial Markets and Institutions Course

Core Chapters

Chapter No.	Chapter Title
1.	Why Study Money, Banking, and Financial Markets?
2.	An Overview of the Financial System
3.	What Is Money?
4.	Understanding Interest Rates
5.	The Behavior of Interest Rates
6.	The Risk and Term Structure of Interest Rates
7.	The Stock Market, the Theory of Rational Expectations, and the Efficient Markets Hypothesis
8.	An Economic Analysis of Financial Structure
9.	Financial Crises
10.	Banking and the Management of Financial Institutions
11.	Economic Analysis of Financial Regulation
12.	Banking Industry: Structure and Competition
13.	Nonbank Finance
14.	Financial Derivatives
15.	Conflicts of Interest in the Financial Industry

For a one-semester course, cover any four of the following optional chapters:

Chapter No.	Chapter Title
16.	Central Banks and the Federal Reserve System
17.	The Money Supply Process
18.	Tools of Monetary Policy
19.	The Conduct of Monetary Policy: Strategy and Tactics
20.	The Foreign Exchange Market
21.	The International Financial System
22.	Quantity Theory, Inflation, and the Demand for Money
23.	Aggregate Demand and Supply Analysis
24.	Monetary Policy Theory
25.	Transmission Mechanisms of Monetary Policy

A one-quarter course would probably only include one of the optional chapters.

■ Outline for Monetary Theory and Policy Course

Core Chapters

Chapter No.	Chapter Title
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- | | |
|-----|--|
| 1. | Why Study Money, Banking, and Financial Markets? |
| 2. | An Overview of the Financial System |
| 3. | What Is Money? |
| 4. | Understanding Interest Rates |
| 5. | The Behavior of Interest Rates |
| 16. | Central Banks and the Federal Reserve System |
| 17. | The Money Supply Process |
| 18. | Tools of Monetary Policy |
| 19. | The Conduct of Monetary Policy: Strategy and Tactics |
| 23. | Aggregate Demand and Supply Analysis |
| 24. | Monetary Policy Theory |
| 25. | Transmission Mechanisms of Monetary Policy |

For a one-semester course, cover any seven of the following optional chapters:

Chapter No.	Chapter Title
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- | | |
|-----|---|
| 6. | The Risk and Term Structure of Interest Rates |
| 7. | The Stock Market, the Theory of Rational Expectations, and the Efficient Markets Hypothesis |
| 8. | An Economic Analysis of Financial Structure |
| 9. | Financial Crises |
| 10. | Banking and the Management of Financial Institutions |
| 11. | Economic Analysis of Financial Regulation |
| 12. | Banking Industry: Structure and Competition |
| 13. | Nonbank Finance |
| 14. | Financial Derivatives |
| 15. | Conflicts of Interest in the Financial Industry |
| 20. | The Foreign Exchange Market |
| 21. | The International Financial System |
| 22. | Quantity Theory, Inflation, and the Demand for Money |

A one-quarter course would probably only include three or four of the optional chapters.

Overviews of the Textbook Chapters and Teaching Tips

I have been teaching money and banking now for over thirty years. The overviews and teaching tips in Part Two of the Instructor's Manual are intended to share with you some of my experiences in the classroom with teaching the material in the textbook. The overview and teaching tips for each chapter provide a brief description of the contents of the chapter, discuss the novel features of the chapter, indicate what central points need to be transmitted to the student, suggest teaching tips that I have found useful in class, and provide guidance as to what material can easily be skipped in each chapter.

Answers to End-of-Chapter Problems

Part Three of the Instructor's Manual contains the answers to end-of-chapter problems. Some of these questions require students to look up current data, and in these cases no answers are given; however, for the rest of the questions, the answers are quite complete.

Many instructors will use the end-of-chapter questions for homework assignments, as I do. I have found it useful to hand out answers to the questions provided in Part Three to the students as solutions sets after they have completed their assignments; they find them to be an invaluable study aid. Making up these solution sets for reproduction should be quite easy, either by cutting and pasting from Part Three or downloading the files from the Instructor's Resource Center at www.pearsonhighered.com/irc.

PowerPoint Presentation

Also offered in the instructor supplement's package is a PowerPoint Presentation that contains lecture notes and all the textbook's figures and tables. These slides are comprehensive and outline all the major points covered in the text. The lecture notes have been class-tested successfully—they are the ones that I use in class—and they should help other instructors prepare their lectures as they have helped me.

Please note that unless you have access to PowerPoint version 4.0 or higher you will only be able to project the provided images using the viewer that is included; editing or adding material will not be possible unless you have the software program.

To obtain the PowerPoint files, adopters of the text just need to get in touch with their Pearson sales representative, or visit the Instructor's Resource Center at www.pearsonhighered.com/irc to download the available electronic files.

Test Bank

The Test Bank contains over 2500 multiple-choice questions that are appropriate for use as quiz or test questions. It is provided as a set of Word files in Macintosh and Windows versions, as well as a set of .BOK TestGen files. It can be downloaded from the Instructor's Resource Center at www.pearsonhighered.com/irc. These forms provide alternative methods for the instructor to make up exams.

The Pearson TestGen program offered is a computerized test generator that lets you construct tests by choosing questions from the Test Bank that was prepared specifically for this textbook and your course. The test construction process involves the use of a simple TestGen screen that you fill in on the computer to choose questions for your test. If desired, test questions can be viewed on the screen, and test questions can be edited, saved, or printed. In addition, you can add questions, which may include graphics.

The program features:

- The Test Bank can include four types of questions: multiple choice; true/false; short answer; and essay.

- A supplementary page attached to each Test Bank question can contain its topic, objective, skill, difficulty, and other user-added information.

- Test questions can be chosen in a variety of ways including manual selection, random selection, choose while viewing, and choose by searching.

- Questions chosen for a test can be viewed and edited without affecting the original versions of the questions in the item bank.

- Test size is limited only by the memory size of the computer and the length of the questions you choose.

- Test questions can be printed in the exact order you specify or grouped and sorted automatically by the program.

- Printer files can be created or modified to take advantage of the capabilities of your printer.

Course Management with MyEconLab

MyEconLab delivers rich online content and innovative learning tools to your classroom. Instructors who use MyEconLab gain access to powerful communication and assessment tools, and their students receive access to the additional learning resources described below.

Students and MyEconLab

MyEconLab delivers the content and tools your students need to succeed online. Students whose instructors use MyEconLab gain access to a variety of study and practice tools that put them in control of their own learning:

- Practice tests enable students to check their understanding and identify areas in which they need to do further work.
- A personalized study plan based on test results will show students where further study is needed.
- Interactive exercises based on specific end-of-chapter questions as well as general topics allow the student to review the material at any time. Some exercises require students to draw a graph.
- The textbook is accessible online, with key figures.
- A selection of *Readings in Money, Banking, and Financial Markets*, regularly updated by me and James W. Eaton of Bridgewater College, provides current articles related to topics covered in the textbook.
- Each week during the semester, students will be asked to read an article from a major online news source and answer questions on it. This is an effective and natural way to bring current events into the classroom.
- Sample quizzes give students a chance to double-check their understanding and application of the main topics in each test chapter.
- Supplements to the textbook, such as chapter synopses, glossary flashcards, and links to other Web sites help instructors to expand on the material.

Instructors and MyEconLab

With MyEconLab instructors can customize existing content and add their own. They can manage, create, and assign tests to students, choosing from the exercises in the Study Plan as well as from our Test Banks. MyEconLab also includes advanced tracking features that record students' usage and performance and a Gradebook feature to see students' test results. Please contact your Pearson sales representative to see how MyEconLab can work for your course.

The Mishkin Companion Website

The Companion Website for *The Economics of Money, Banking, and Financial Markets*, Tenth Edition, at www.pearsonhighered.com/mishkin, offers a brief chapter preview, a review quiz, links to related Web sites, and glossary flashcards. Other features such as the electronic textbook and interactive exercises are only available via MyEconLab.

Readings in Money, Banking, and Financial Markets **(Online Reader)**

A basic problem of textbooks in the money and banking field is that current events and financial innovation make many of the facts in the textbook obsolete soon after publication. To minimize this problem, *The Economics of Money, Banking, and Financial Markets* Business School Edition, Third Edition, focuses less on a set of facts, but rather stresses the underlying principles to understand money, banking, and financial markets. The advantage to this approach is that these principles never become obsolete, and as a result, the material in the text continues to promote understanding of the financial system as it evolves over time.

Because of the emphasis on basic principles, the text works extremely well when it is supplemented by current readings on banking and financial markets. To make it easy for instructors to supplement the text with current readings, Pearson publishes an annual *Readings* book online, designed to supplement the text and edited by James W. Eaton of Bridgewater College and me. The *Readings* collection is unique in that it is updated over the life of this edition of the textbook, with well over half of the articles new with each update. In addition, it includes summaries of the articles, provides suggestions for which textbook chapter(s) the reading might be assigned, and contains discussion questions that follow each reading in order to encourage students to think about how the reading relates to material in the text. The *Readings* should enable instructors to keep the subject matter of their course current throughout the life of the edition of the text.

To provide you with a better feel for what the Readings comprise, the most current table of contents is provided on the next several pages.

Readings for Money, Banking, and Financial Markets*

Reading 1

“Is U.S. Federal Debt Too Large?” Pedro Amaral, *Economic Commentary*, No. 2010–10, Federal Reserve Bank of Cleveland, August 24, 2010.

Reading 2

“Evaluating the Relative Strength of the U.S. Capital Markets.” Stavros Peristiani, *Current Issues in Economics and Finance* 13(6), Federal Reserve Bank of New York, June 2007.

Reading 3

“The Fate of One-Dollar Coins in the U.S.” Sébastien Lotz and Guillaume Rocheteau, *Economic Commentary*, Federal Reserve Bank of Cleveland, October 15, 2004.

Reading 4

“Are Consumers Cashing Out?” Paul W. Bauer and Daniel Littman, *Economic Commentary*, Federal Reserve Bank of Cleveland, October 1, 2007.

Reading 5

“Inflation Expectations: How the Market Speaks.” Simon Kwan, *FRBSF Economic Letter* No. 2005–25, Federal Reserve Bank of San Francisco, October 3, 2005.

Reading 6

“Flight to Safety and U.S. Treasury Securities.” Bryan Noeth and Rajdeep Sengupta, *Regional Economist*, Federal Reserve Bank of St. Louis, July 2010, 18–19.

Reading 7

“The Yield Curve as a Leading Indicator: Some Practical Issues.” Arturo Estrella and Mary R. Trubin, *Current Issues in Economics and Finance* 12(5), Federal Reserve Bank of New York, July/August 2006.

Reading 8

“How Economic News Moves Markets.” Leonardo Bartolini, Linda Goldberg, and Adam Sacarny, *Current Issues in Economics and Finance* 14(6), Federal Reserve Bank of New York, August 2008.

Reading 9

“The Price Is Right?” Renee Courtois, *Region Focus*, Federal Reserve Bank of Richmond, Fall 2009, 16–19, 34.

Reading 10

“For Better and For Worse: Three Lending Relationships.” Mitchell Berlin, *Business Review*, Federal Reserve Bank of Philadelphia, November/December 1996, 3–12.

Reading 11

*Please note that these are from the 2010 Reader to give you a feel for the type of articles chosen. The 2012 reading selections will be available in MyEconLab at www.myeconlab.com/mishkin. Articles will also be updated periodically.

“How Will a Credit Crunch Affect Small Business Finance?” Gregory F. Udell, *FRBSF Economic Letter* No. 2009–09, Federal Reserve Bank of San Francisco, March 6, 2009.

Reading 12

“Compensation and Risk Incentives in Banking and Finance.” Jian Cai, Kent Cherny, Todd Milbourn, *Economic Commentary*, No. 2010–13, Federal Reserve Bank of Cleveland, September 14, 2010.

Reading 13

“Going Private.” Vanessa Sumo, *Region Focus*, Federal Reserve Bank of Richmond, Winter 2008, 12–17.

Reading 14

“Perils of Price Deflation: An Analysis of the Great Depression.” Charles T. Carlstrom and Timothy S. Fuerst, *Economic Commentary*, Federal Reserve Bank of Cleveland, February 15, 2001.

Reading 15

“Predicting Crises, Part I: Do Coming Crises Cast Their Shadows Before?” Bharat Trehan, *FRBSF Economic Letter*, No. 2009–29, Federal Reserve Bank of San Francisco, September 21, 2009.

Reading 16

“Reforming the Raters.” Renee Courtois, *Region Focus*, Federal Reserve Bank of Richmond, Spring 2009, 14–19.

Reading 17

“Mortgage-Backed Securities: How Important Is ‘Skin in the Game’?” Christopher M. James, *FRBSF Economic Letter*, No. 2010–37, Federal Reserve Bank of San Francisco, December 13, 2010.

Reading 18

“De-Leveraging and the Financial Accelerator: How Wall Street Can Shock Main Street.” Satyajit Chatterjee, *Business Review*, Federal Reserve Bank of Philadelphia, Second Quarter 2010, 1–8.

Reading 19

“Capital Cushions: The Basel Accords and Bank Risk.” Stephen Slivinski, *Region Focus*, Federal Reserve Bank of Richmond, Spring 2009, 6–9.

Reading 20

“Why Economists Still Worry About Bank Runs.” Doug Campbell, *Region Focus*, Federal Reserve Bank of Richmond, Fall 2005, 36–38.

Reading 21

“Addressing TBTF by Shrinking Financial Institutions: An Initial Assessment.” Gary H. Stern and Ron Feldman, *The Region*, Federal Reserve Bank of Minneapolis, June 2009, 8–13.

Reading 22

“The Costs and Benefits of Bank Supervisory Disclosure.” Edward Simpson Prescott and Stephen Slivinski, *Economic Brief* EB09-05, Federal Reserve Bank of Richmond, May 2009.

Reading 23

“If Fed Becomes Super Regulator, Politicians Would Be Its Kryptonite.” Sharon K. Blei, *The Regional Economist*, Federal Reserve Bank of St. Louis, January 2009, 14–15.

Reading 24

“Federal Preemption of State Bank Regulation: A Conference Panel Summary.” Erin Davis and Tara Rice, *Chicago Fed Letter* 230a, Federal Reserve Bank of Chicago, September 2006.

Reading 25

“Out from the Shadows: The Run on Shadow Banking and a Framework for Reform.” Renee Courtois Haltom, *Region Focus*, Federal Reserve Bank of Richmond, Third Quarter 2010, 22–25.

Reading 26

“The Present and Future of Pension Insurance.” Simon Kwan, Federal Reserve Bank of San Francisco, *FRBSF Economic Letter*, No. 2003–25, August 29, 2003, pp. 1–3.

Reading 27

“Social Security Restructuring: Tough Decisions Ahead.” Jason L. Saving and Alan D. Viard, *Southwest Economy*, Issue 5, September/October 2003.

Reading 28

“Mutual Funds, Fee Transparency, and Competition.” John B. Carlson, Eduard A. Pelz, and Erkin Y. Sahinoz, *Federal Reserve Bank of Cleveland Economic Commentary*, March 1, 2004, pp. 1–3.

Reading 29

“Risky Business.” Vanessa Sumo, *Region Focus*, Federal Reserve Bank of Richmond, Summer 2007, 16–19.

Reading 30

“Credit Default Swaps and Their Market Function.” Kent Cherny and Ben R. Craig, Federal Reserve Bank of Cleveland, September 22, 2009.

Reading 31

“Lights Out.” Doug Campbell, *Region Focus*, Federal Reserve Bank of Richmond, Summer 2005, 13–18.

Reading 32

“Reforming the Over-the-Counter Derivatives Market: What’s to Be Gained?” Kent Cherny and Ben R. Craig, Federal Reserve Bank of Cleveland, July 7, 2010.

Reading 33

“U.S. Monetary Policy: An Introduction. Part 2: What Are the Goals of U.S. Monetary Policy?” *FRBSF Economic Letter* No. 2004–02, Federal Reserve Bank of San Francisco, January 23, 2004.

Reading 34

“How’s Business? The Role of the Beige Book in Fed Policymaking.” Renee Courtois, *Region Focus*, Federal Reserve Bank of Richmond, Summer 2009, 5–7.

Reading 35

“Explaining Bank Credit Crunches and Procyclicality.” Robert R. Bliss and George G. Kaufman, *Chicago Fed Letter* No. 179, Federal Reserve Bank of Chicago, July 2002.

Reading 36

“Why Are Banks Holding So Many Excess Reserves?” Todd Keister and James J. McAndrews, *Current Issues in Economics and Finance*, 15 (8), Federal Reserve Bank of New York, December 2009.

Reading 37

“Federal Reserve Liquidity Programs: An Update.” Niel Williardson and LuAnne Pederson, *The Region*, Federal Reserve Bank of Minneapolis, June 2010, 14–25.

Reading 38

“Quantitative Easing: Entrance and Exit Strategies.” Alan S. Blinder, *Review*, Federal Reserve Bank of St. Louis, November/December 2010, 465–79.

Reading 39

“Monetary Policy in a World with Interest on Reserves.” Charles T. Carlstrom and Timothy Fuerst, *Economic Commentary*, No. 2010–4, Federal Reserve Bank of Cleveland, June 10, 2010.

Reading 40

“Conducting Monetary Policy when Interest Rates Are Near Zero.” Charles T. Carlstrom and Andrea Pescatori, *Economic Commentary*, Federal Reserve Bank of Cleveland, October 2009.

Reading 41

“Disagreement about the Inflation Outlook.” Sylvain LeDuc, Glenn D. Rudebusch, and Justin Weidner, *FRBSF Economic Letter*, No. 2009–31, Federal Reserve Bank of San Francisco, October 5, 2009.

Reading 42

“Reflections on Monetary Policy: Flexibility, Transparency, and Inflation.” Michael H. Moskow, *Chicago Fed Letter* No. 230, Federal Reserve Bank of Chicago, September 2006.

Reading 43

“Publishing Central Bank Interest Rate Forecasts.” Glenn D. Rudebusch, *FRBSF Economic Letter* No. 2008–02, Federal Reserve Bank of San Francisco, January 25, 2008.

Reading 44

“U.S. Monetary Policy: An Introduction. Part 4: How Does the Fed Decide the Appropriate Setting for the Policy Instrument?” *FRBSF Economic Letter* No. 2004–04, Federal Reserve Bank of San Francisco, February 6, 2004.

Reading 45

“The Taylor Rule: A Guidepost for Monetary Policy?” Charles T. Carlstrom and Timothy S. Fuerst, *Economic Commentary*, Federal Reserve Bank of Cleveland, July 2003.

Reading 46

“Interest Rates, Carry Trades, and Exchange Rate Movements.” Michele Cavallo, *FRBSF Economic Letter* No. 2006–31, Federal Reserve Bank of San Francisco, November 17, 2006.

Reading 47

“An Anchor of Gold.” Stephen Slivinski, *Region Focus*, Federal Reserve Bank of Richmond, Second Quarter 2010, 5–7.

Reading 48

“Is the International Role of the Dollar Changing?” Linda S. Goldberg, *Current Issues in Economics and Finance*, 16 (1), Federal Reserve Bank of New York, January 2010.

Reading 49

“Dollarization Explained.” Stephen Slivinski, *Region Focus*, Federal Reserve Bank of Richmond, Fall 2008, 2–5.

Reading 50

“The Greek Crisis: Argentina Revisited?” Fernanda Nechio, *FRBSF Economic Letter*, No. 2010–33, Federal Reserve Bank of San Francisco, November 1, 2010.

Reading 51

“Raising Capital: The Role of Sovereign Wealth Funds.” Anna L. Paulson, *Chicago Fed Letter*, No. 258, Federal Reserve Bank of Chicago, January 2009.

Reading 52

“What We Do and Don’t Know about Discretionary Fiscal Policy.” Renee Courtois, *Economic Brief* EB09-04, Federal Reserve Bank of Richmond, April 2009.

Reading 53

“Can the Nation Stimulate Its Way to Prosperity?” Jason Saving, *Economic Letter* 5 (8), Federal Reserve Bank of Dallas, August 2010.

Reading 54

“The Great Moderation: Good Luck, Good Policy, or Less Oil Dependence?” Andrea Pescatori, *Economic Commentary*, Federal Reserve Bank of Cleveland, March 2008.

Reading 55

“U.S. Monetary Policy: An Introduction. Part 3: How Does Monetary Policy Affect the U.S. Economy?” *FRBSF Economic Letter* No. 2004–03, Federal Reserve Bank of San Francisco, January 30, 2004.

Reading 56

“Regulatory and Monetary Policies Meet ‘Too Big to Fail’.” Harvey Rosenblum, Jessica J. Renier, and Richard Alm, *Economic Letter* 5 (3), Federal Reserve Bank of Dallas, April 2010.

Reading 57

“Why Policymakers Might Care about Stock Market Bubbles.” Paul Gomme, *Economic Commentary*, Federal Reserve Bank of Cleveland, May 15, 2005.

Reading 58

“Rising Relative Prices or Inflation: Why Knowing the Difference Matters.” Owen F. Humpage, *Economic Commentary*, Federal Reserve Bank of Cleveland, June 2008.

Reading 59

“Do Deficits Matter? And, If So, How?” Stephen Slivinski, *Region Focus*, Federal Reserve Bank of Richmond, Second Quarter 2010, 12–15.

Reading 60

“Getting Back on Track: Macroeconomic Policy Lessons from the Financial Crisis.” John B. Taylor, *Review*, Federal Reserve Bank of St. Louis, May/June 2010, 165–76.

Study Guide

The only way to learn effectively about money, banking, and financial markets is by continual and active application of the basic concepts developed in the textbook. To help the student in this endeavor, we provide the *Study Guide*.

The *Study Guide* contains the following elements for each chapter:

Chapter Review:

Each chapter begins with a summary of the chapter. The chapter review is divided into sections based on the section headings provided in the text.

Helpful Hints:

This section provides some additional suggestions and examples to help clarify the more difficult material.

Terms and Definitions:

Students match key terms from the text to their definitions. This section is particularly important because a working economic and financial vocabulary is necessary in order for the student to advance through the material.

Problems and Short-Answer Questions:

We provide a number of multi-step problems that require numerical, graphical, or written solutions. The problems are based on the larger issues developed in the chapter. Smaller issues are addressed with approximately ten short-answer questions.

Critical Thinking:

This section provides a single multi-step problem that is an application of one of the major issues developed in the chapter.

Self-Test:

The self-test section provides fifteen true/false and twenty multiple-choice questions to validate areas of successful learning and to highlight areas needing improvement.

Solutions:

Detailed solutions for all problems and questions are provided at the end of each chapter.