

**Prep Questions for the Final**  
ECON 3133  
Dr. Keen

**Note:** This list of prep questions only includes the material since Exam #3. When studying for the Final, you should also review the prep questions from Exam #1, Exam #2, and Exam #3.

1. *The Federal Reserve's Balance Sheet:* Show how each of the following would initially affect the assets and liabilities of the Federal Reserve. Indicate the types of assets or liabilities that change.
  - a. The Federal Reserve sells \$100,000 in domestic credit to a bank.
  - b. The Federal Reserve reduces its foreign reserves by \$250,000 by conducting a sterilized foreign exchange intervention.
2. *World Financial and Monetary System:* State and briefly describe the macroeconomic policy trilemma. How do the United States and Germany differ in their approaches to the macroeconomic policy trilemma?
3. *Monetary Policy Rules in the World Economy:* Briefly describe how real exchange rates can have an indirect and direct effect on the target interest rate in a Taylor-style nominal interest rate rule. Based on research of the U.S. economy, does the real exchange rate have a direct effect on the Federal Reserve's target nominal interest rate?