

## **Macroeconomics Discussion Session Exercise #8**

1. Outline the direct real balance (or Pigou) effect and indirect real balance (or interest rate or Keynes) effect.

2. What are the counter-arguments to the real balance effects stories?

3. Derive a downward-sloping aggregate demand (AD) curve (as a function of the price level) by introducing real balance effects into the Keynesian cross diagram.

4. What are the three functions of money?

5. What are the three characteristics of a fractional reserve banking system? Between which two characteristics is there a tension, and why?