Worksheet 18.1
Implementing Monetary Policy

Practice the diagramming of monetary policy with this worksheet. Circle the appropriate decision where indicated, and draw in the appropriate changes to the diagrams below.

1) Assume the country is in a demand-side recession. The central bank will move to (tighten/loosen) the money supply. In the open market, the central bank would (buy/sell) bonds. The central bank could also (raise/lower) the base interest rate, or (raise/lower) the reserve requirement.
2) Assume the country is experiencing serious inflation. The central bank will move to (tighten/loosen) the money supply. In the open market, the central bank would (buy/sell) bonds. The central bank could also (raise/lower) the base interest rate, or (raise/lower) the reserve requirement.