Problem Set 8

Lecture 8: Monetary Policy, Monetary Policy in the Dynamic AD-AS Model, and the Bank of Canada's Setting of Monetary Policy

1. For each of the following actions by the Bank of Canada, indicate whether it is expansionary or contractionary monetary policy, what happens to the money supply, and what happens to short-term nominal interest rates.

(a) The Bank of Canada buys $5 billion of government securities on the open market.

(b) The Bank of Canada sells $3 billion of government securities on the open market.