MULTIPLE CHOICES QUESTIONS
1. D
2. A
3. A
4. C
5. B
6. D
7. C
8. A
9. C
10. B
11. C
12. B
13. D
14. B
15. A
16. D
17. B
18. C
19. C
20. B

WRITING QUESTIONS
1. Money Demand
   The graphs for money balance in each case are left as exercises. In all cases, \( T = 1/24 \).
   (a) The graph is a three-step, starts from $2500, immediately decreases by $2500/3 at time \( t = 0 \),
       then decreases by another $2500/3 at time \( t = T/3 \). Average money holding is $2500/3
   (b) The graph is a one-step, starts from $2500, immediately decreases to $0 at time \( t = 0 \), until \( t = T \).
       Average money holding is $0.
   (c) More frequency of shopping trips, more average money holding

2. Permanent Income
   (a) Find \( P \) from
   \[
   P \left( 1 + \frac{1}{1.1} + \frac{1}{1.1 \times 1.15} \right) = 20000 + \frac{40000}{1.1} + \frac{10000}{1.1 \times 1.15}
   \]
   So:
   \[
   P = \frac{20000 + \frac{40000}{1.1} + \frac{10000}{1.1 \times 1.15}}{1 + \frac{1}{1.1} + \frac{1}{1.1 \times 1.15}}
   \]
   Annual consumption is \( c_1 = c_2 = c_3 = P \), provided price level is 1.
   Since \( b_0 = 0 \), then \( b_1 - b_0 = y_1 - c_1 = y_1 - P \).
   (b) \( c_1 = 20000, c_2 = 40000, c_3 = 10000 \)

3. Market Clearing: the graphs are left as exercises.
   (a) \( Y^s \) shifts right, but \( C^d \) shifts right at less magnitude. \( M^d \) rises, shifting right. \( Y \uparrow, R \downarrow, P \downarrow \).
   (b) \( Y^s \) shifts right, and \( C^d \) shifts right at the same magnitude. \( Y \uparrow \) but \( R \) remains the same.