

“Answer on question #58957-Economics- Macroeconomics

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Peter and Jane receive the same annual income, but Peter , who gets paid monthly, will have a much higher demand for active balances than Jane, who gets paid weekly.

- a. Is this statement true ?
- b. Justify your answer.

Solution

A. Yes, this is true statement.

B. Peter has bigger gap between receiving his income and his monthly payments than Jane.

If Jane is paid every week and she could pay all her bills on the same day. Then Jane would need to hold very little money. Her demand for active balances is lower than Peter's demand.

Peter's payment comes once a month. Because he has higher demand for active balances four times than Jane.

For example, if Peter receives \$600 every month. In the course of the month he has an average money holding of \$300.

Jane receives the same month income as Peter, but \$150 per week. In the course of month she has an average money holding of \$150.

Answer

- A. Yes, this is.
- B. If Jane receives her income more frequently than Peter, her cash balances are lower.