What is Money? – Chapter 14

1. The functions of money are to serve as a:   
A. Resource allocator, method for accounting, and means of income distribution  
B. Unit of account, store of value, and medium of exchange  
C. Determinant of consumption, investment, and government spending  
D. Factor of production, exchange, and aggregate supply

2. When a consumer wants to compare the price of one product with another, money is primarily functioning as a:   
A. Store of value  
B. Unit of account  
C. Checkable deposit  
D. Medium of exchange

6. What function is money serving when you buy a ticket to a movie?   
A. A store of value  
B. A unit of account  
C. A transaction demand  
D. A medium of exchange

21. The *M*1 money supply is composed of:   
A. Money market mutual funds held by individuals  
B. Money market mutual funds held by businesses  
C. Savings deposits and time deposits  
D. Checkable deposits and currency

24. Cathy Rogers deposits $200 in currency in her checking account at a bank. This deposit is treated as:   
A. A subtraction of $200 from the money supply because the $200 in currency is no longer in circulation  
B. An addition of $200 to the money supply because of the creation of a checkable deposit of $200  
C. An addition of $200 to the money supply because the bank holds $200 in currency and the checking account has been increased by $200  
D. No change in the money supply because the $200 in currency has been converted to a $200 increase in checkable deposits

28. Checkable deposits are included in:   
A. *M*1 but not in *M*2  
B. *M*2 but not in *M*1  
C. both *M*1 and *M*2  
D. neither *M*1 nor *M*2

47. What "backs" the money supply?   
A. The U.S. government's ability to keep the value of money relatively stable  
B. The amount of gold the U.S. government has on deposit at its banks  
C. The fact that currency is issued as Federal Reserve Notes  
D. The fact that the intrinsic value of coins in circulation is greater than their face value

The Fed – Chapter 16

57. The Federal Reserve Banks are owned by the:   
A. Federal government  
B. Board of Governors  
C. United States Treasury  
D. Member banks

60. How long is the term of office for members appointed to serve on the Board of Governors of the Federal Reserve System?   
A. 2 years  
B. 4 years  
C. 7 years  
D. 14 years

63. The Federal Open Market Committee (FOMC) of the Federal Reserve System is primarily for:   
A. Maintaining cash reserves that can be used to settle international transactions  
B. Supervising banks to make sure that markets are open to all and remain competitive  
C. Issuing currency and acting as the fiscal agent for the Federal government  
D. Setting the Fed's monetary policy and directing the purchase and sale of government securities

74. The main function of the Federal Reserve System is to:   
A. Serve as the fiscal agent for the Federal government  
B. Supervise the operation of member banks  
C. Clear checks from member banks  
D. Control the money supply

76. Economic studies conducted in industrially advanced countries suggest there is:   
A. A positive relationship between the degree of independence of the central bank and the size of the average annual rate of inflation  
B. An inverse relationship between the degree of independence of the central bank and the size of the average annual rate of inflation  
C. No relationship between the degree of independence of the central bank and the size of the average annual rate of inflation  
D. A positive relationship between the degree of independence of the central bank and the size of the central bank

Money Creation – Chapter 15

1. The fractional reserve system of banking started when goldsmiths began:   
A. Accepting deposits of gold for safe storage  
B. Charging people who deposited their gold  
C. Using deposited gold to produce products for sale to others  
D. Issuing paper receipts in excess of the amount of gold held

 15. Legal reserve requirements:   
A. Give commercial banks more legal control over the money supply  
B. Limit "windfall" profits in the commercial banking system  
C. Permit the Federal Reserve System to control the lending capacity of banks  
D. Provide the FDIC with the power to protect deposits at commercial banks and thrifts

19. A commercial bank's required reserves can be calculated by:   
A. Dividing its excess reserves by its required reserves  
B. Dividing its required reserves by its excess reserves  
C. Multiplying its checkable-deposit liabilities by the reserve ratio  
D. Multiplying its checkable-deposit liabilities by its excess reserves

20. A commercial bank has actual reserves of $50,000 and checkable deposits of $200,000, and the required reserve ratio is 20%. The excess reserves of the bank are:   
A. $10,000  
B. $20,000  
C. $40,000  
D. $50,000

31. Assume that the required reserve ratio is 25 percent. If a commercial bank has $2 million cash in its vault, $1 million in short-term government securities, $3 million on deposit at a Federal Reserve Bank, and $6 million in checkable deposits, its total reserves equal:   
A. $3 million  
B. $4 million  
C. $5 million  
D. $8 million

37. When a check is cleared against a bank, it will lose:   
A. Cash and securities  
B. Checkable deposits and reserves  
C. Reserves and capital stock  
D. Loans and demand deposits

39. The primary reason commercial banks must keep required reserves on deposit at Federal Reserve Banks is to:   
A. Add to the liquidity of the commercial bank  
B. Allow the Fed to control the amount of bank lending  
C. Protect the deposits in the commercial bank against losses  
D. Provide the means by which checks drawn on a commercial bank and deposited in other commercial banks can be collected



99. Refer to the above information. This bank can safely expand its loans by a maximum of:   
A. $20,000  
B. $40,000  
C. $100,000  
D. $200,000

100. Refer to the above information. The monetary multiplier is:   
A. 3.00  
B. 4.00  
C. 5.00  
D. 6.67

103. Refer to the above information. If the original bank balance sheet was for the commercial banking system, rather than a single bank, loans and deposits could have been expanded by a maximum of:   
A. $40,000  
B. $100,000  
C. $200,000  
D. $300,000

Money Market – Chapter 14 (textbook 16)

8. The asset demand for money and the rate of interest are:   
A. Inversely related  
B. Directly related  
C. Unrelated  
D. Both stable

14. The total quantity of money demanded is determined by:   
A. Subtracting the asset demand for money from the transactions demand for money  
B. Adding the transactions demand for money to the asset demand for money  
C. Subtracting the transactions demand for money from nominal GDP  
D. Adding the asset demand for money to nominal GDP



20. Refer to the above graph, in which *Dt* is the transactions demand for money, *Dm* is the total demand for money, and *Sm* is the supply of money. The transactions demand for money in this money market is:   
A. $125  
B. $175  
C. $250  
D. $325

21. Refer to the above graph, in which *Dt* is the transactions demand for money, *Dm* is the total demand for money, and *Sm* is the supply of money. If the interest rate was 4 percent, the asset demand for money would be:   
A. $125  
B. $175  
C. $200  
D. $225



35. Refer to the above graph. If the supply of money was $250 billion, the interest rate would be:   
A. 1 percent  
B. 2 percent  
C. 3 percent  
D. 4 percent

54. An increase in the money supply is likely to decrease:   
A. Prices  
B. Nominal income  
C. Money demand  
D. Interest rates

Monetary Policy – Chapter 16

67. In the consolidated balance sheet of the Federal Reserve Banks, loans to commercial banks are:   
A. A liability of the Federal Reserve Banks and commercial banks  
B. An asset of the Federal Reserve Banks and commercial banks  
C. A liability of the Federal Reserve Banks and an asset for commercial banks  
D. An asset of the Federal Reserve Banks and a liability for commercial banks

79. The reserves of commercial banks are a(n):   
A. Asset to commercial banks and an asset to the Federal Reserve Banks  
B. Asset to commercial banks and a security to the Federal Reserve Banks  
C. Asset to commercial banks and a liability to the Federal Reserve Banks  
D. Liability to commercial banks and an asset to the Federal Reserve Banks

80. The lending ability of commercial banks increases when the:   
A. Reserve ratio is raised  
B. Treasury collects tax receipts  
C. Central banks sell securities in the open market  
D. Central banks buy securities in the open market

87. The tools of monetary policy for altering the reserves of commercial banks are the:   
A. Tax rate and level of government spending  
B. Consumer price index and unemployment rate  
C. Public debt, budget surplus, and budget deficit  
D. Discount rate, reserve ratio, and open-market operations

88. The Board of Governors of the Federal Reserve System can increase commercial bank reserves by:   
A. Increasing the discount rate  
B. Increasing the reserve ratio  
C. Decreasing the prime interest rate  
D. Buying government securities in the open market

94. Assume the required reserve ratio is 20 percent. If the Federal Reserve buys $80 million in government securities from the public, then the money supply will immediately:   
A. Increase by $80 million, and the maximum money-lending potential of the commercial banking system will increase by $80 million  
B. Increase by $80 million, but the maximum money-lending potential of the commercial banking system will decrease by $80 million  
C. Increase by $80 million, and the maximum money-lending potential of the commercial banking system will increase by $400 million  
D. Decrease, because the securities are an asset to the commercial banks and a liability to the Federal Reserve

102. Assuming that the Federal Reserve Banks sell $40 million in government securities to commercial banks and the reserve ratio is 20 percent, then the effect will be to reduce:   
A. Excess reserves by $8 million  
B. Excess reserves by $200 million  
C. The potential money supply by $200 million  
D. The potential money supply by $400 million

106. The most frequently used monetary device for achieving price stability is:   
A. Open-market operations  
B. The discount rate  
C. The reserve ratio  
D. The prime interest rate

109. If the Board of Governors of the Federal Reserve System increases the legal reserve ratio, this change will:   
A. Increase the excess reserves of member banks and thus increase the money supply  
B. Increase the excess reserves of member banks and thus decrease the money supply  
C. Decrease the excess reserves of member banks and thus decrease the money supply  
D. Decrease the excess reserves of member banks and thus increase the money supply

113. A television report states: "The Federal Reserve will lower the discount rate for the fourth time this year." This report indicates that the Federal Reserve is most likely trying to:   
A. Reduce inflation  
B. Save the banking industry  
C. Stimulate the economy  
D. Improve the savings rate

119. In recent years, the Fed often communicated its intentions to restrict or expand monetary policy by announcing a change in targets for the:   
A. Exchange rate  
B. Federal funds rate  
C. Prime interest rate  
D. Consumer price index



153. Refer to the above graphs, in which the numbers in parentheses near the AD1, AD2, and AD3 labels indicate the level of investment spending associated with each curve, respectively. All numbers are in billions of dollars. The interest rate and the level of investment spending in the economy are at point *D* on the investment demand curve. To achieve the long-run goal of a noninflationary full-employment output *Qf* in the economy, the Fed should:   
A. Decrease aggregate demand by increasing the interest rate from 2 to 4 percent  
B. Decrease aggregate demand by increasing the interest rate from 4 to 6 percent  
C. Increase aggregate demand by decreasing the interest rate from 4 to 2 percent  
D. Increase the level of investment spending from $120 billion to $150 billion

164. Which of the following best describes what occurs when monetary authorities sell government securities?   
A. There is a decrease in the size of commercial banks' excess reserves, the money supply increases, and interest rates fall, thereby causing a decrease in investment spending and real GDP  
B. There is a decrease in the size of commercial banks' excess reserves, the money supply decreases, and the interest rates rise, thereby causing a decrease in investment spending and real GDP  
C. There is a decrease in the size of commercial banks' excess reserves, the money supply decreases, and interest rates rise, thereby causing an increase in investment spending and real GDP  
D. There is an increase in the size of commercial bank reserves, the money supply increases, and interest rates fall, thereby causing an increase in investment spending and real GDP



168. Refer to the above diagrams, in which the numbers in parentheses near the AD1, AD2, and AD3 labels indicate the level of investment spending associated with each curve. All figures are in billions. The economy is at equilibrium at the intersection of the aggregate supply curve and aggregate demand curve AD3. What policy should the Fed pursue to achieve a noninflationary full-employment level of real GDP?   
A. Increase the money supply from $75 to $150 billion  
B. Increase the money supply from $150 to $225 billion  
C. Decrease the money supply from $225 to $150 billion  
D. Make no change in the money supply

179. The major problem facing the economy is high unemployment and weak economic growth. The inflation rate is low and stable. Therefore, the Federal Reserve decides to pursue a policy to increase the rate of economic growth. Which policy changes by the Fed would reinforce each other to achieve that objective?   
A. Selling government securities and raising the discount rate  
B. Selling government securities and lowering the discount rate  
C. Buying government securities and lowering the discount rate  
D. Buying government securities and raising the reserve ratio

187. A newspaper headline reads: "Fed Raises Discount Rate for Third Time This Year." This headline indicates that the Federal Reserve is most likely trying to:   
A. Stimulate the economy  
B. Increase the money supply  
C. Reduce the cost of credit  
D. Reduce inflationary pressures in the economy

193. Assume that the MPC is .75. If the Federal Reserve increases the money supply and investment spending increases by $8 billion, then aggregate demand is likely to:   
A. Increase by $6 billion  
B. Increase by $8 billion  
C. Increase by $32 billion  
D. Decrease by $8 billion

202. The strengths of monetary policy compared to fiscal policy are generally thought to include all of the following *except* greater:   
A. Speed  
B. Flexibility  
C. Impact on taxation  
D. Political acceptance

207. A Federal Reserve official notes: "A restrictive money policy can force a contraction of the money supply, but an expansionary money policy may not achieve an expansion of the economy." The official has described the problem of the:   
A. Inflexibility of monetary policy tools  
B. Change in taxes on monetary policy  
C. Cyclical asymmetry of monetary policy  
D. Political acceptability of monetary policy