Chapter 29
The Monetary System

TRUE/FALSE

1. In an economy that relies on barter, trade requires a double-coincidence of wants.
   ANS: T DIF: 1 REF: 29-0
   NAT: Analytic LOC: The role of money TOP: Barter
   MSC: Definitional

2. Joe wants to trade eggs for sausage. Lashonda wants to trade sausage for eggs. Joe and Lashonda have a double-coincidence of wants.
   ANS: T DIF: 1 REF: 29-0
   NAT: Analytic LOC: The role of money TOP: Barter
   MSC: Definitional

3. The use of money allows trade to be roundabout.
   ANS: T DIF: 1 REF: 29-0
   NAT: Analytic LOC: The role of money TOP: Money | Trade
   MSC: Definitional

4. Roundabout trade is beneficial for an economy.
   ANS: T DIF: 1 REF: 29-0
   NAT: Analytic LOC: The role of money TOP: Money | Trade
   MSC: Definitional

5. Money allows people to specialize in what they do best, thereby raising everyone’s standard of living.
   ANS: T DIF: 2 REF: 29-0
   NAT: Analytic LOC: The role of money TOP: Money
   MSC: Interpretive

6. When money functions as a unit of account, then it cannot be commodity money.
   ANS: F DIF: 2 REF: 29-1
   NAT: Analytic LOC: The role of money TOP: Money
   MSC: Interpretive

7. Demand deposits are balances in bank accounts that depositors can access by writing a check.
   ANS: T DIF: 1 REF: 29-1
   NAT: Analytic LOC: The role of money TOP: Demand deposits
   MSC: Definitional

8. According to economists, a collection of valuable jewels is not money.
   ANS: T DIF: 2 REF: 29-1
   NAT: Analytic LOC: The Study of economics, and the definitions of economics
   TOP: Money MSC: Interpretive

9. A debit card is more similar to a credit card than to a check.
   ANS: F DIF: 2 REF: 29-1
   NAT: Analytic LOC: The Study of economics, and the definitions of economics
   TOP: Money MSC: Interpretive

10. Gary’s wealth is $1 million. Economists would say that Gary has $1 million worth of money.
    ANS: F DIF: 1 REF: 29-1
    NAT: Analytic LOC: The role of money TOP: Money
    MSC: Definitional

11. Marc puts prices on surfboards and skateboards at his sporting goods store. He is using money as a unit of account.
    ANS: T DIF: 1 REF: 29-1
    NAT: Analytic LOC: The role of money TOP: Money
    MSC: Definitional
12. Sandra routinely uses currency to purchase her groceries. She is using money as a unit of account.

ANS: F  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Money
MSC: Definitional

13. Bottles of very fine wine are less liquid than demand deposits.

ANS: T  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Liquidity
MSC: Interpretive

14. U.S. dollars are an example of commodity money and hides used to make trades are an example of fiat money.

ANS: F  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Commodity money
MSC: Definitional

15. When the Soviet Union began breaking up in the late 1980s, cigarettes began replacing the ruble as the medium of exchange even though the ruble was legal tender. The cigarettes provide an example of fiat money.

ANS: F  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Commodity money
MSC: Interpretive

16. In order for currency to be widely used as a medium of exchange, it is sufficient for the government to designate it as legal tender.

ANS: F  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Currency
MSC: Definitional

17. M1 includes savings deposits.

ANS: F  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Money supply
MSC: Definitional

18. M2 is both larger and more liquid than M1.

ANS: F  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Money supply | Liquidity
MSC: Interpretive

19. Credit cards are a medium of exchange.

ANS: F  DIF: 2  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Medium of exchange
MSC: Definitional

20. The series of bank failures in 1907 occurred despite the creation of the Federal Reserve many years earlier.

ANS: F  DIF: 1  REF: 29-2
NAT: Analytic  LOC: The role of money  TOP: Federal Reserve System
MSC: Interpretive

21. Federal Reserve governors are given long terms to insulate them from politics.

ANS: T  DIF: 2  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Interpretive

22. The Federal Reserve is a privately operated commercial bank.

ANS: F  DIF: 1  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

23. The Federal Reserve was created in 1913 after a series of bank failures in 1907.

ANS: T  DIF: 1  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional
24. Members of the Board of Governors are appointed by the president of the U.S. and confirmed by the U.S. Senate.

ANS: T          DIF: 1          REF: 29-2

NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

25. Monetary policy is determined by a committee whose voting members include all the presidents of the regional Federal Reserve Banks.

ANS: F          DIF: 1          REF: 29-2

NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Open Market Committee
MSC: Definitional

26. The Federal Reserve primarily uses open-market operations to change the money supply.

ANS: T          DIF: 1          REF: 29-3

NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
MSC: Definitional

27. If the Fed buys bonds in the open market, the money supply decreases.

ANS: F          DIF: 1          REF: 29-3

NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
MSC: Applicative

28. Banks cannot influence the money supply if they hold all deposits in reserve.

ANS: T          DIF: 2          REF: 29-3

NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Banks | Money supply
MSC: Interpretive

29. Banks still could contribute to changes in the money supply, even if they were required to hold all deposits in reserve.

ANS: F          DIF: 1          REF: 29-3

NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Fractional-reserve banking
MSC: Applicative

30. If banks hold any amount of their deposits in reserve, then they do not have the ability to influence the money supply.

ANS: F          DIF: 2          REF: 29-3

NAT: Analytic  LOC: The role of money  TOP: Reserves | Money supply
MSC: Interpretive

31. When the Federal Reserve decreases the discount rate, the quantity of reserves increases and the money supply increases.

ANS: T          DIF: 2          REF: 29-3

NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Discount rate | Reserves | Money supply
MSC: Interpretive

32. The money multiplier equals 1/(1 - R), where R represents the reserve ratio.

ANS: F          DIF: 1          REF: 29-3

NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
MSC: Definitional

33. Assume that when $100 of new reserves enter the banking system, the money supply ultimately increases by $625. Assume also that no banks hold excess reserves and that the entire money supply consists of bank deposits. If, at a point in time, reserves for all banks amount to $500, then at that same point in time, loans for all banks amount to $2,625.

ANS: T          DIF: 3          REF: 29-3

NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
MSC: Analytical
34. Assume that when $100 of new reserves enter the banking system, the money supply ultimately increases by $800. Assume also that no banks hold excess reserves and that the entire money supply consists of bank deposits. If, at a point in time, reserves for all banks amount to $750, then at that same point in time, loans for all banks amount to $6,000.

ANS: F     DIF: 3     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Money multiplier
MSC: Analytical

35. As banks create money, they create wealth.

ANS: F     DIF: 1     REF: 29-3
NAT: Analytic     LOC: The role of money     TOP: Banks | Money
MSC: Definitional

36. The money supply of Hooba is $10,000 in a 100-percent-reserve banking system. If Hooba decreases the reserve requirement to 10 percent, the money supply could increase by no more than $9,000.

ANS: F     DIF: 2     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Money multiplier
MSC: Applicative

37. If the Fed decreases reserve requirements, the money supply will increase.

ANS: T     DIF: 1     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Reserve requirements
MSC: Applicative

38. An increase in reserve requirements increases reserves and decreases the money supply.

ANS: F     DIF: 2     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Reserve requirements
MSC: Applicative

39. Just after the terrorist attack on September 11, 2001, the Fed stood ready to lend financial institutions funds. When the Fed did this, it was acting in its role of lender of last resort.

ANS: T     DIF: 1     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Lender of last resort
MSC: Definitional

40. Because of the multiple tools at its disposal, the Fed can control the money supply very precisely.

ANS: F     DIF: 2     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Federal Reserve System
MSC: Interpretive

41. In the months of November and December, people in the United States hold a larger part of their money in the form of currency because they intend to shop and travel for the holidays. As a result, other things the same the money supply increases.

ANS: F     DIF: 2     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Currency | Money multiplier
MSC: Applicative

42. Other things the same, if banks decide to hold a smaller part of their deposits as excess reserves, the money supply will fall.

ANS: F     DIF: 2     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Reserves
MSC: Applicative

43. Bank runs and the accompanying increase in the money multiplier caused the U.S. money supply to rise by 28 percent from 1929 to 1933.

ANS: F     DIF: 2     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Banks | Money multiplier
MSC: Definitional
1. Economists argue that the move from barter to money increased trade and production. How is this possible?  
ANS: The use of money allows people to trade more easily. When it is easier to trade, specialization increases. Increased specialization increases production and the standard of living.

DIF: 2  REF: 29-1  NAT: Analytic
LOC: The role of money  TOP: Barter | Money  MSC: Interpretive

2. What is the difference between money and wealth?  
ANS: Money is defined as the set of assets in the economy that people regularly use to buy goods and services from other people. Wealth includes all assets, both monetary and nonmonetary.

DIF: 2  REF: 29-1  NAT: Analytic
LOC: The role of money  TOP: Money  MSC: Definitional

3. Which of the three functions of money are commonly met by each of the following assets in the U.S. economy?  
   a. paper dollar  
   b. precious metals  
   c. collectibles such as baseball cards, stamps, and antiques  
ANS:  
   a. medium of exchange, store of value, unit of account  
   b. store of value  
   c. store of value

DIF: 1  REF: 29-1  NAT: Analytic
LOC: The role of money  TOP: Money  MSC: Interpretive

4. Are credit cards and debit cards money? What's the difference between credit and debit cards?  
ANS: Neither credit cards nor debit cards are money, but credit cards are very different from debit cards. Credit cards are not a medium of exchange, but are a means of deferring payment. Debit cards allow the user immediate access to deposits in a bank account. These deposits are part of the money supply.

DIF: 2  REF: 29-1  NAT: Analytic
LOC: The role of money  TOP: Money  MSC: Interpretive

5. What is the difference between commodity money and fiat money? Why do people accept fiat money in trade for goods and services?  
ANS: Commodity money has "intrinsic value," or value in uses other than as money. Fiat money is established as money by the government. It has very little, if any, intrinsic value. Although fiat money has no intrinsic value, people accept it in trade when they are confident that others will also accept it. The government's decree that fiat currency serves as legal tender increases this confidence.

DIF: 2  REF: 29-1  NAT: Analytic
LOC: The role of money  TOP: Commodity money  MSC: Definitional

6. What does the text mean by the question, "Where Is All the Currency?" How does it answer the question?  
ANS: The amount of currency per person is nearly $3,300. Most people carry far less than this. The question is, "where is the rest of the currency?" Foreigners and criminals hold some. In some foreign countries, people have more confidence in the U.S. dollar than in their own currency. Criminals use currency because it makes it harder for the government to trace their activities than if they used bank accounts. So they may hold above average amounts of currency.

DIF: 2  REF: 29-1  NAT: Analytic
LOC: The role of money  TOP: Currency  MSC: Definitional
7. What is meant by the term "lender of last resort?" In what circumstances might the Fed be a lender of last resort?

ANS: A "lender of last resort" is a lender to those who cannot borrow anywhere else. The Fed might loan funds to a solvent bank that is experiencing a bank run and so doesn't currently have enough cash on hand to meet depositors' demands.

DIF: 1  REF: 29-2  NAT: Analytic
LOC: Monetary and fiscal policy  TOP: Lender of last resort
MSC: Interpretive

8. Compare the Board of Governors and the Federal Open Market Committee.

ANS: The Board of Governors runs the Federal Reserve. It has seven members who are appointed by the U.S. president with the advice and consent of the Senate. The voting members of the Federal Open Market Committee include the 7 members of the Board of Governors and 5 of the 12 regional bank presidents, rotated among the 12 regional presidents, but always including the president of the New York Fed. The chair of the BOG also serves as chair of the FOMC. The FOMC meets about every six weeks in Washington, D.C. to discuss the condition of the economy and to consider changes in monetary policy.

DIF: 1  REF: 29-2  NAT: Analytic
LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

9. What makes the New York Federal Reserve regional bank so important?

ANS: The president of the New York Federal Reserve regional bank is the only regional bank president who is always a voting member of the FOMC, the committee that determines monetary policy. New York is the traditional financial center of the U.S. economy and the New York Federal Reserve Bank conducts all open-market transactions.

DIF: 1  REF: 29-2  NAT: Analytic
LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

10. Designers of the Federal Reserve System were concerned that the Fed might form policy favorable to one part of the country or to a particular party. What are some ways that the organization of the Fed reflects such concerns?

ANS: 1. The president appoints the Board of Governors, but the Senate must approve them.
2. The seven members of the Board of Governors serve 14-year terms, so it is unlikely that a single president will have appointed most of them.
3. The Federal Reserve has 12 regional banks.
4. The presidents of the regional banks serve as voting members of the FOMC on a rotating basis.

DIF: 2  REF: 29-2  NAT: Analytic
LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Interpretive

11. Which two of the Ten Principles of Economics imply that the Fed can profoundly affect the economy?

ANS: 1. Prices rise when the government prints too much money.
2. There is a short-run tradeoff between inflation and unemployment.

DIF: 2  REF: 29-2  NAT: Analytic
LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Interpretive
12. Explain why banks can influence the money supply if the required reserve ratio is less than 100 percent.

ANS:
When the reserve requirement is less than 100 percent, banks can lend out deposits. The money they lend out is redeposited. In this way, deposits can be greater than reserves. Since deposits are greater under fractional-reserve banking and since deposits are part of the money supply, the money supply will be greater under fractional-reserve banking.

DIF: 2    REF: 29-3    NAT: Analytic
LOC: Monetary and fiscal policy    TOP: Banks | Money supply
MSC: Interpretive

13. If the reserve ratio is 20 percent, how much money can be created from $100 of reserves? Show your work.

ANS:
\[(1/0.20) \times \$100 = \$500.\]

DIF: 1    REF: 29-3    NAT: Analytic
LOC: Monetary and fiscal policy    TOP: Money multiplier
MSC: Applicative

14. Draw a simple T-account for First National Bank which has $5,000 of deposits, a required reserve ratio of 10 percent, and excess reserves of $300. Make sure you balance sheet balances.

ANS:

<table>
<thead>
<tr>
<th>First National Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
</tr>
<tr>
<td>Reserves $800</td>
</tr>
<tr>
<td>Loans $4,200</td>
</tr>
</tbody>
</table>

DIF: 2    REF: 29-3    NAT: Analytic
LOC: Monetary and fiscal policy    TOP: Banks    MSC: Applicative

15. Explain how each of the following changes the money supply.
   a. the Fed buys bonds
   b. the Fed raises the discount rate
   c. the Fed raises the reserve requirement

ANS:
   a. If the Fed buys bonds, it pays for them with reserves so banks will have more reserves and can lend more which will create more deposits and so more money.
   b. If the Fed raises the discount rate banks will borrow less from the Fed, and so have fewer reserves, which decreases the money supply.
   c. If the Fed raises the reserve requirement, banks will have to hold more of their deposits as reserves and so will have less to lend out. With less to lend out, deposits and the money supply decrease.

DIF: 2    REF: 29-3    NAT: Analytic
LOC: Monetary and fiscal policy    TOP: Federal Reserve System | Money supply
MSC: Interpretive

16. Describe the two things that limit the precision of the Fed's control of the money supply and explain how each limits that control.

ANS:
First, the Fed does not control the amount of currency that households choose to hold relative to deposits. If households decide to hold relatively more currency, banks have fewer reserves and the money supply decreases. Second, the Fed cannot control the amount banks choose to hold as excess reserves. If bankers decide to lend out less of their deposits, the money supply will decrease.

DIF: 3    REF: 29-3    NAT: Analytic
LOC: Monetary and fiscal policy    TOP: Federal Reserve System | Money supply
MSC: Interpretive
17. During the early 1930s there were a number of bank failures in the United States. What did this do to the money supply? The New York Federal Reserve Bank advocated open market purchases. Would these purchases have reversed the change in the money supply and helped banks? Explain.

ANS: Bank failures cause people to lose confidence in the banking system so that deposits fall and banks have less to lend. Further, under these circumstances banks are probably more cautious about lending. Both of these reactions would tend to decrease the money supply. Open market purchases increase bank reserves and so would have at least made the decrease smaller. The increase in reserves would also have provided banks with greater liquidity to meet the demands of customers who wanted to make withdrawals. In short, while the actions of depositors and banks lowered the money supply, the Fed could have increased it by buying bonds.

DIF: 3 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Monetary policy | Open-market operations MSC: Analytical

18. Suppose that in a country the total holdings of banks were as follows:
required reserves = $45 million
excess reserves = $15 million
deposits = $750 million
loans = $600 million
Treasury bonds = $90 million
Show that the balance sheet balances if these are the only assets and liabilities.

Assuming that people hold no currency, what happens to each of these values if the central bank changes the reserve requirement ratio to 3%, banks still want to hold the same percentage of excess reserves, and banks don’t change their holdings of Treasury bonds? How much does the money supply change by?

ANS: The only liability is deposits which equal $750 million. Total reserves are $60 billion which summed with loans, $600 million, and Treasury bonds $90 million = $750. Since liabilities equal assets, the balance sheet balances.

Initially banks need to hold 6% on reserve and want to hold 2% as excess reserves. When the Fed lowers the reserve requirement ratio to 2%, the bank only has to hold $15 million on reserve and so now has $30 million of excess reserves. Between the 2% requirement and the 2% for excess the reserve ratio is now 4% and the multiplier is now 1/0.04 = 25. So, the decrease in the reserve requirement ratio leads to an increase in deposits of $750 million. (Also, total reserves are $60 million and the multiplier is now 25, so deposits should be $1,500 million.) Required reserves are 2% of $1,500 million of deposits = $30 million. Excess reserves are 2% of $1,500 million of deposits and so now also equal $30 million. Deposits rose by as much as the money supply since people don’t hold currency, so that the money supply rose by $750 million. The additional deposits came by way of additional lending, so loans should have also increased by $750 million. Also, since deposits rose by $750 million, liabilities should have risen by $750 million. Under the given assumptions, this means loans should have risen by $750 million.

Overall the money supply rose by $750 as explained above.

DIF: 3 REF: 29-2 | 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserves | Money multiplier MSC: Analytical

MULTIPLE CHOICE

1. The double coincidence of wants
   a. is required when there is no item in an economy that is widely accepted in exchange for goods and services.
   b. is required in an economy that relies on barter.
   c. is a hindrance to the allocation of resources when it is required for trade.
   d. All of the above are correct.

ANS: D DIF: 1 REF: 29-0 NAT: Analytic LOC: The role of money TOP: Barter MSC: Interpretive
2. In an economy that relies upon barter,
   a. trade does not require a double coincidence of wants.
   b. scarce resources are allocated just as easily as they are in economies that do not rely upon barter.
   c. there is no item in the economy that is widely accepted in exchange for goods and services.
   d. All of the above are correct.

ANS: C  DIF: 1  REF: 29-0
NAT: Analytic  LOC: The role of money  TOP: Barter  MSC: Interpretive

3. Which of the following is an example of barter?
   a. A parent gives a teenager a $10 bill in exchange for her babysitting services.
   b. A homeowner gives an exterminator a check for $50 in exchange for extermination services.
   c. A barber gives a plumber a haircut in exchange for the plumber fixing the barber’s leaky faucet.
   d. All of the above are examples of barter.

ANS: C  DIF: 2  REF: 29-0
NAT: Analytic  LOC: The study of economics, and the definitions of economics  TOP: Barter  MSC: Applicative

4. Consider five high school students working on homework in study hall.

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Rosie</td>
<td>has math homework</td>
<td>wants science homework</td>
</tr>
<tr>
<td>Bob</td>
<td>has English homework</td>
<td>wants history homework</td>
</tr>
<tr>
<td>Piper</td>
<td>has math homework</td>
<td>wants science homework</td>
</tr>
<tr>
<td>Dewey</td>
<td>has science homework</td>
<td>wants English homework</td>
</tr>
<tr>
<td>Molly</td>
<td>has science homework</td>
<td>wants math homework</td>
</tr>
</tbody>
</table>

Which of the following pairs of students has a double coincidence of wants?
   a. Rosie and Piper
   b. Piper and Molly
   c. Dewey and Molly
   d. Bob and Dewey

ANS: B  DIF: 1  REF: 29-0
NAT: Analytic  LOC: The study of economics, and the definitions of economics  TOP: Barter  MSC: Applicative

5. Consider five individuals with different occupations.

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Mary</td>
<td>provides legal advice</td>
<td>wants knives sharpened</td>
</tr>
<tr>
<td>Clark</td>
<td>grows tomatoes</td>
<td>wants legal advice</td>
</tr>
<tr>
<td>Nathan</td>
<td>styles hair</td>
<td>wants tomatoes</td>
</tr>
<tr>
<td>Polly</td>
<td>brews beer</td>
<td>wants knives sharpened</td>
</tr>
<tr>
<td>Paul</td>
<td>sharpens knives</td>
<td>wants beer</td>
</tr>
</tbody>
</table>

Which of the following pairs of individuals has a double coincidence of wants?
   a. Mary and Clark
   b. Clark and Nathan
   c. Nathan and Polly
   d. Polly and Paul

ANS: D  DIF: 1  REF: 29-0
NAT: Analytic  LOC: The study of economics, and the definitions of economics  TOP: Barter  MSC: Applicative
6. Consider four survivors on an island.

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Rupert</td>
<td>has machete</td>
<td>wants fishing spear</td>
</tr>
<tr>
<td>Amber</td>
<td>has cooking pot</td>
<td>wants fishing spear</td>
</tr>
<tr>
<td>Rob</td>
<td>has fishing spear</td>
<td>wants machete</td>
</tr>
<tr>
<td>Tom</td>
<td>has cooking pot</td>
<td>wants machete</td>
</tr>
</tbody>
</table>

Which of the following pairs of survivors has a double coincidence of wants?

a. Rupert with Amber, and Rob with Tom
b. Amber with Tom
c. Rupert with Rob
d. None of the above are correct.

ANS: C  DIF: 1  REF: 29-0

NAT: Analytic  LOC: The role of money  TOP: Barter
MSC: Applicative

7. Consider the following traders who meet.

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Bob</td>
<td>has an apple</td>
<td>wants an orange</td>
</tr>
<tr>
<td>Ted</td>
<td>has an orange</td>
<td>wants a peach</td>
</tr>
<tr>
<td>Mary</td>
<td>has a pear</td>
<td>wants an apple</td>
</tr>
<tr>
<td>Alice</td>
<td>has a peach</td>
<td>wants an orange</td>
</tr>
</tbody>
</table>

Which, if any, pairs of traders has a double coincidence of wants?

a. Bob with Alice
b. Ted with Alice
c. Bob with Mary, Ted with Bob, and Ted with Alice
d. None of the pairs above has a double coincidence of wants.

ANS: B  DIF: 1  REF: 29-0

NAT: Analytic  LOC: The role of money  TOP: Barter
MSC: Applicative

8. The existence of money leads to

a. greater specialization in production, but not to a higher standard of living.
b. a higher standard of living, but not to greater specialization.
c. greater specialization and to a higher standard of living.
d. neither greater specialization nor to a higher standard of living.

ANS: C  DIF: 1  REF: 29-0

NAT: Analytic  LOC: The role of money  TOP: Money
MSC: Definitional

9. When we say that trade is roundabout we mean that

a. people sometimes trade goods for goods.
b. trades require a double coincidence of wants.
c. currency is accepted primarily to make further trades.
d. people must spend time searching for the products they wish to purchase.

ANS: C  DIF: 1  REF: 29-0

NAT: Analytic  LOC: The role of money  TOP: Trade
MSC: Definitional
MULTIPLE CHOICE

1. Economists use the term money to refer to
   a. all wealth.
   b. all assets, including real assets and financial assets.
   c. all financial assets, but real assets are not regarded as money.
   d. those types of wealth that are regularly accepted by sellers in exchange for goods and services.
   ANS: D DIF: 1 REF: 29-1
   NAT: Analytic LOC: The role of money TOP: Money
   MSC: Definitional

2. Money
   a. is a perfect store of value.
   b. is the most liquid asset.
   c. has intrinsic value, regardless of which form it takes.
   d. All of the above are correct.
   ANS: B DIF: 2 REF: 29-1
   NAT: Analytic LOC: The role of money TOP: Money | Liquidity
   MSC: Interpretive

3. Money is the most liquid asset available because
   a. it is a store of value.
   b. it is a medium of exchange.
   c. it is a unit of account.
   d. it has intrinsic value.
   ANS: B DIF: 2 REF: 29-1
   NAT: Analytic LOC: The role of money TOP: Money | Liquidity
   MSC: Interpretive

4. The ease with which an asset can be
   a. traded for another asset determines whether or not that asset is a unit of account.
   b. transported from one place to another determines whether or not that asset could serve as fiat money.
   c. converted into a store of value determines the liquidity of that asset.
   d. converted into the economy’s medium of exchange determines the liquidity of that asset.
   ANS: D DIF: 1 REF: 29-1
   NAT: Analytic LOC: The role of money TOP: Liquidity
   MSC: Interpretive

5. When we want to measure and record economic value, we use money as the
   a. liquid asset.
   b. medium of exchange.
   c. unit of account.
   d. store of value.
   ANS: C DIF: 1 REF: 29-1
   NAT: Analytic LOC: The role of money TOP: Money
   MSC: Definitional

6. In which of the following sets of assets are the assets correctly ranked from most liquid to least liquid?
   a. money, bonds, cars, houses
   b. money, cars, houses, bonds
   c. bonds, money, cars, houses
   d. bonds, cars, money, houses
   ANS: A DIF: 2 REF: 29-1
   NAT: Analytic LOC: The role of money TOP: Liquidity
   MSC: Interpretive
7. Which of the following lists ranks types of assets from most liquid to least liquid?
   a. currency, demand deposits, money market mutual funds
   b. currency, money market mutual funds, demand deposits
   c. money market mutual funds, demand deposits, currency
   d. demand deposits, money market mutual funds, currency

   ANS: A  DIF: 2  REF: 29-1
   NAT: Analytic  LOC: The study of economics, and the definitions of economics
   TOP: Liquidity  MSC: Applicative

8. Which list ranks assets from most to least liquid?
   a. currency, fine art, stocks
   b. currency, stocks, fine art
   c. fine art, currency, stocks
   d. fine art, stocks, currency

   ANS: B  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Liquidity
   MSC: Definitional

9. When an economy uses silver as money, then that economy’s money
   a. serves as a store of value but not as a medium of exchange.
   b. serves as a medium of exchange but not as a unit of account.
   c. is fiat money.
   d. has intrinsic value.

   ANS: D  DIF: 2  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Money | Intrinsic value
   MSC: Interpretive

10. For purposes of analyzing the money stock and its relationship to relevant economic variables, money is best thought of as
   a. those items that can be readily accessed and used to buy goods and services.
   b. currency only.
   c. currency plus all bank accounts.
   d. currency plus all bank accounts plus bonds.

   ANS: A  DIF: 2  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Money
   MSC: Interpretive

11. The measure of the money stock called M1 includes
   a. wealth held by people in their checking accounts.
   b. wealth held by people in their savings accounts.
   c. wealth held by people in money market mutual funds.
   d. everything that is included in M2 plus some additional items.

   ANS: A  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Money supply
   MSC: Definitional

12. Credit cards are
   a. a medium of exchange.
   b. counted as part of M2 but not as part of M1.
   c. important for analyzing the monetary system.
   d. All of the above are correct.

   ANS: C  DIF: 2  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Money
   MSC: Interpretive
13. The set of items that serve as media of exchange clearly includes
   a. demand deposits.
   b. short-term bonds.
   c. credit cards.
   d. All of the above are correct.

ANS: A  DIF: 2  REF: 29-1
NAT: Analytic  LOC: The role of money
TOP: Money | Medium of exchange  MSC: Interpretive

14. The set of items that serve as media of exchange clearly includes
   a. balances that lie behind debit cards.
   b. demand deposits.
   c. deposits other than demand deposits, such as NOW accounts, on which checks can be written.
   d. All of the above are correct.

ANS: D  DIF: 2  REF: 29-1
NAT: Analytic  LOC: The role of money
TOP: Money | Medium of exchange  MSC: Interpretive

15. Dollar bills, rare paintings, and emerald necklaces are all
   a. media of exchange.
   b. units of account.
   c. stores of value.
   d. All of the above are correct.

ANS: C  DIF: 2  REF: 29-1
NAT: Analytic  LOC: The study of economics, and the definitions of economics
TOP: Store of value  MSC: Interpretive

16. Imagine an economy in which: (1) pieces of paper called yollars are the only thing that buyers give to sellers
   when they buy goods and services, so it would be common to use, say, 50 yollars to buy a pair of shoes; (2)
   prices are posted in terms of yardsticks, so you might walk into a grocery store and see that, today, an apple is
   worth 2 yardsticks; and (3) yardsticks disintegrate overnight, so no yardstick has any value for more than 24
   hours. In this economy,
   a. the yardstick is a medium of exchange but it cannot serve as a unit of account.
   b. the yardstick is a unit of account but it cannot serve as a store of value.
   c. the yardstick is a medium of exchange but it cannot serve as a store of value, and the yollar is a unit
       of account.
   d. the yollar is a unit of account, but it is not a medium of exchange and it is not a liquid asset.

ANS: B  DIF: 2  REF: 29-1
NAT: Analytic  LOC: The study of economics, and the definitions of economics
TOP: Medium of exchange | Store of value  MSC: Applicative

17. Money is
   a. the most liquid asset and a perfect store of value.
   b. the most liquid asset but an imperfect store of value.
   c. the least liquid asset but a perfect store of value.
   d. the least liquid asset and an imperfect store of value.

ANS: B  DIF: 2  REF: 29-1
NAT: Analytic  LOC: The role of money
TOP: Money | Liquidity | Store of value  MSC: Interpretive

18. Paper dollars
   a. are commodity money and gold coins are fiat money.
   b. are fiat money and gold coins are commodity money.
   c. and gold coins are both commodity monies.
   d. and gold coins are both fiat monies.

ANS: B  DIF: 2  REF: 29-1
NAT: Analytic  LOC: The study of economics, and the definitions of economics
TOP: Currency | Commodity money  MSC: Interpretive
19. The Soviet government in the 1980s never abandoned the ruble as the official currency. The people of Moscow preferred to accept other items such as
   a. cigarettes in exchange for goods and services, because they were convinced that cigarettes were going to soon become hard to come by.
   b. American dollars in exchange for goods and services, because rubles were extremely hard to come by.
   c. cigarettes or American dollars in exchange for goods and services, reminding us of the fact that government decree by itself is not sufficient for the success of a commodity money.
   d. All of the above are correct.
ANS: C  DIF: 3  REF: 29-1
NAT: Analytic  LOC: The study of economics, and the definitions of economics
TOP: Medium of exchange  MSC: Applicative

20. Currency includes
   a. paper bills and coins.
   b. demand deposits.
   c. credit cards.
   d. Both (a) and (b) are correct.
ANS: A  DIF: 2  REF: 29-1
NAT: Analytic  LOC: The study of economics, and the definitions of economics
TOP: Currency  MSC: Interpretive

21. Which of the following is not included in M1?
   a. a $5 bill in your wallet
   b. $100 in your checking account
   c. $500 in your savings account
   d. All of the above are included in M1.
ANS: C  DIF: 2  REF: 29-1
NAT: Analytic  LOC: The study of economics, and the definitions of economics
TOP: Money supply  MSC: Interpretive

22. Money
   a. is more efficient than barter.
   b. makes trades easier.
   c. allows greater specialization.
   d. All of the above are correct.
ANS: D  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money
TOP: Money
MSC: Definitional

23. Paper money
   a. has a high intrinsic value.
   b. is the primary medium of exchange in a barter economy.
   c. is valuable because it is generally accepted in trade.
   d. is valuable only because of the legal tender requirement.
ANS: C  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money
TOP: Money
MSC: Definitional

24. Which of the following is a store of value?
   a. currency
   b. U.S. government bonds
   c. fine art
   d. All of the above are correct.
ANS: D  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money
TOP: Store of value
MSC: Interpretive
25. Which of the following best illustrates the unit of account function of money?
   b. You pay for your theater tickets with dollars.
   c. You keep 6 ounces of gold in your safe-deposit box at the bank for emergencies.
   d. None of the above is correct.

   ANS: A  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Unit of account
   MSC: Interpretive

26. Which of the following best illustrates the concept of a store of value?
   a. You are a precious-metals dealer, and you are always aware of how many ounces of platinum trade
      for an ounce of gold.
   b. You sell items on eBay, and your prices are stated in terms of dollars.
   c. You keep 6 ounces of gold in your safe-deposit box at the bank for emergencies.
   d. None of the above is correct.

   ANS: C  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Store of value
   MSC: Interpretive

27. The “yardstick” people use to post prices and record debts is called
   a. a medium of exchange.
   b. a unit of account.
   c. a store of value.
   d. liquidity.

   ANS: B  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Unit of account
   MSC: Definitional

28. Mia puts money into a piggy bank so she can spend it later. What function of money does this illustrate?
   a. store of value
   b. medium of exchange
   c. unit of account
   d. None of the above is correct.

   ANS: A  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Store of value
   MSC: Interpretive

29. Which of the following best illustrates the medium of exchange function of money?
   a. You keep some money hidden in your shoe.
   b. You keep track of the value of your assets in terms of currency.
   c. You pay for your oil change using currency.
   d. None of the above is correct.

   ANS: C  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Medium of exchange
   MSC: Interpretive

30. You receive money as payment for babysitting your neighbors' children. This best illustrates which function of
   money?
   a. medium of exchange
   b. unit of account
   c. store of value
   d. liquidity

   ANS: A  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Medium of exchange
   MSC: Definitional
31. Which of the following is a function of money?
   a. a unit of account
   b. a store of value
   c. medium of exchange
   d. All of the above are correct.
   ANS: D  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Money
   MSC: Definitional

32. An item that people can use to transfer purchasing power from the present to the future is called
   a. a medium of exchange.
   b. a unit of account.
   c. a store of value.
   d. None of the above is correct.
   ANS: C  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Store of value
   MSC: Definitional

33. Treasury Bonds are
   a. liquid, but not a store of value.
   b. a store of value, but not liquid.
   c. both liquid and a store of value.
   d. neither liquid nor a store of value.
   ANS: C  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Liquidity | Store of value
   MSC: Interpretive

34. Which of the following functions of money is also a common function of most other financial assets?
   a. a unit of account
   b. a store of value
   c. medium of exchange
   d. None of the above is correct.
   ANS: B  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Store of value
   MSC: Definitional

35. Economists use the word "money" to refer to
   a. income generated by the production of goods and services.
   b. those assets regularly used to buy goods and services.
   c. the value of a person's assets.
   d. the value of stocks and bonds.
   ANS: B  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Money
   MSC: Definitional

36. Liquidity refers to
   a. the ease with which an asset is converted to the medium of exchange.
   b. a measurement of the intrinsic value of commodity money.
   c. the suitability of an asset to serve as a store of value.
   d. how many time a dollar circulates in a given year.
   ANS: A  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Liquidity
   MSC: Definitional
37. Currently, U.S. currency is
   a. fiat money with intrinsic value.
   b. fiat money with no intrinsic value.
   c. commodity money with intrinsic value.
   d. commodity money with no intrinsic value.

   ANS: B       DIF: 1       REF: 29-1
   NAT: Analytic     LOC: The role of money     TOP: Commodity money | Money
   MSC: Definitional

38. Fiat money
   a. has no intrinsic value.
   b. is backed by gold.
   c. has intrinsic value equal to its value in exchange.
   d. is any close substitute for currency such as checkable deposits.

   ANS: A       DIF: 1       REF: 29-1
   NAT: Analytic     LOC: The role of money     TOP: Intrinsic value
   MSC: Definitional

39. Commodity money is
   a. backed by gold.
   b. the principal type of money in use today.
   c. money with intrinsic value.
   d. receipts created in international trade that are used as a medium of exchange.

   ANS: C       DIF: 1       REF: 29-1
   NAT: Analytic     LOC: The role of money     TOP: Commodity money
   MSC: Definitional

40. Fiat money
   a. is worthless.
   b. has no intrinsic value.
   c. may be used as a medium of exchange, but it is not legal tender.
   d. performs all the functions of money except the unit-of-account function.

   ANS: B       DIF: 1       REF: 29-1
   NAT: Analytic     LOC: The role of money     TOP: Intrinsic value
   MSC: Definitional

41. Which type of money has intrinsic value?
   a. commodity money
   b. fiat money
   c. both commodity money and fiat money
   d. neither commodity money nor fiat money

   ANS: A       DIF: 1       REF: 29-1
   NAT: Analytic     LOC: The role of money     TOP: Commodity money
   MSC: Definitional

42. If an economy used gold as money, its money would be
   a. commodity money, but not fiat money.
   b. fiat money, but not commodity money.
   c. both fiat and commodity money.
   d. functioning as a store of value and as a unit of account, but not as a medium of exchange.

   ANS: A       DIF: 1       REF: 29-1
   NAT: Analytic     LOC: The role of money     TOP: Commodity money
   MSC: Definitional
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43. The legal tender requirement means that
   a. people are more likely to accept the dollar as a medium of exchange.
   b. the government must hold enough gold to redeem all currency.
   c. people may not make trades with anything else.
   d. All of the above are correct.

   ANS: A   DIF: 1   REF: 29-1
   NAT: Analytic   LOC: The role of money   TOP: Medium of exchange
   MSC: Definitional

44. Writing in *The New York Times* in 2004, economist Hal R. Varian asserted that dollars are valuable as a result of
   a. the fact that they are backed by gold.
   b. the cost incurred by the government when it prints paper currency.
   c. “network effects.”
   d. “commodity effects.”

   ANS: C   DIF: 1   REF: 29-1
   NAT: Analytic   LOC: The role of money   TOP: Money | Value
   MSC: Definitional

45. Writing in *The New York Times* in 2004, economist Hal R. Varian likens the network effects associated with dollars to the network effects associated with
   a. fax machines.
   b. carbonated beverages.
   c. televisions and radios.
   d. jewelry and works of art.

   ANS: A   DIF: 1   REF: 29-1
   NAT: Analytic   LOC: The role of money   TOP: Money | Value
   MSC: Definitional

46. In the early 1990s, the inflation rate in southern Iraq averaged about
   a. 3 percent a year, with the U.S. dollar serving as the official currency in southern Iraq at that time.
   b. 20 percent a year, with a new currency, the “Saddam dinar,” serving as the official currency in southern Iraq at that time.
   c. 250 percent a year, with a new currency, the “Saddam dinar,” serving as the official currency in southern Iraq at that time.
   d. 250 percent a year, with an established currency, the “Swiss dinar,” serving as the official currency in southern Iraq at that time.

   ANS: C   DIF: 2   REF: 29-1
   NAT: Analytic   LOC: The role of money   TOP: Money | Inflation rate
   MSC: Interpretive

47. M1 equals currency plus demand deposits plus
   a. nothing else.
   b. other checkable deposits.
   c. traveler's checks plus other checkable deposits.
   d. traveler's checks plus other checkable deposits plus savings deposits.

   ANS: C   DIF: 1   REF: 29-1
   NAT: Analytic   LOC: The role of money   TOP: Money supply
   MSC: Definitional

48. M1 includes
   a. currency.
   b. demand deposits.
   c. travelers' checks.
   d. All of the above are correct.

   ANS: D   DIF: 1   REF: 29-1
   NAT: Analytic   LOC: The role of money   TOP: Money supply
   MSC: Definitional
49. Which of the following is not included in M1?
   a. currency
   b. demand deposits
   c. savings deposits
   d. travelers' checks

   ANS: C  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Money supply
   MSC: Definitional

50. Which of the following is not included in M1?
   a. currency
   b. demand deposits
   c. traveler's checks
   d. credit cards

   ANS: D  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Money supply
   MSC: Definitional

51. Which of the following is included in M2 but not in M1?
   a. currency
   b. demand deposits
   c. savings deposits
   d. All of the above are included in both M1 and M2.

   ANS: C  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Money supply
   MSC: Definitional

52. When we add up currency, demand deposits, other checkable deposits, and travelers checks, we get
   a. the money supply, as universally defined by economists.
   b. the totality of common stores of value in the United States.
   c. M1.
   d. M2.

   ANS: C  DIF: 1  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Money supply
   MSC: Definitional

53. Which of the following is included in M2 but not in M1?
   a. demand deposits
   b. corporate bonds
   c. large time deposits
   d. money market mutual funds

   ANS: D  DIF: 2  REF: 29-1
   NAT: Analytic  LOC: The role of money  TOP: Money supply
   MSC: Definitional

54. Which of the following is not included in either M1 or M2?
   a. U.S. Treasury bills
   b. small time deposits
   c. demand deposits
   d. money market mutual funds

   ANS: A  DIF: 2  REF: 29-1
   NAT: Analytic  LOC: The role of money
   TOP: Money supply  MSC: Definitional
55. Which of the following items is included in the M2 definition of the money supply?
   a. credit cards
   b. money market mutual funds
   c. corporate bonds
   d. large time deposits

   ANS: B   DIF: 1   REF: 29-1
   NAT: Analytic   LOC: The role of money   TOP: Money supply
   MSC: Definitional

56. Which of the following statements is correct?
   a. All items that are included in M1 are included also in M2.
   b. All items that are included in M2 are included also in M1.
   c. Credit cards are included in both M1 and M2.
   d. Savings deposits are included in both M1 and M2.

   ANS: A   DIF: 2   REF: 29-1
   NAT: Analytic   LOC: The role of money   TOP: Money supply
   MSC: Definitional

57. Money market mutual funds are included in
   a. M1 but not M2.
   b. M1 and M2.
   c. M2 but not M1.
   d. neither M1 nor M2.

   ANS: C   DIF: 1   REF: 29-1
   NAT: Analytic   LOC: The role of money
   TOP: Money supply | Money supply
   MSC: Definitional

58. Demand deposits are a type of
   a. checking account.
   b. time deposit.
   c. money market mutual fund.
   d. savings deposit.

   ANS: A   DIF: 1   REF: 29-1
   NAT: Analytic   LOC: The role of money
   TOP: Demand deposits
   MSC: Definitional

59. Demand deposits are included in
   a. M1 but not M2.
   b. M2 but not M1.
   c. M1 and M2.
   d. neither M1 nor M2.

   ANS: C   DIF: 1   REF: 29-1
   NAT: Analytic   LOC: The role of money
   TOP: Money supply
   MSC: Definitional

60. Travelers checks are included in
   a. M1 but not M2.
   b. M2 but not M1.
   c. M1 and M2.
   d. neither M1 nor M2.

   ANS: C   DIF: 1   REF: 29-1
   NAT: Analytic   LOC: The role of money
   TOP: Money supply
   MSC: Definitional
61. Credit card limits are included in
   a. M1 but not M2.
   b. M2 but not M1.
   c. M1 and M2.
   d. neither M1 nor M2.

ANS: D  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Money supply
MSC: Definitional

62. Savings deposits are included in
   a. M1 but not M2.
   b. M2 but not M1.
   c. M1 and M2.
   d. neither M1 nor M2.

ANS: B  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Money supply
MSC: Definitional

63. Which of the following is included in both M1 and M2?
   a. savings deposits
   b. demand deposits
   c. small time deposits
   d. money market mutual funds

ANS: B  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Money supply
MSC: Definitional

64. Which of the following is included in both M1 and M2?
   a. currency
   b. demand deposits
   c. other checkable deposits
   d. All of the above are correct.

ANS: D  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Money supply
MSC: Definitional

65. Credit cards
   a. defer payments.
   b. are a store of value.
   c. have led to wider use of currency.
   d. are part of the money supply.

ANS: A  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Credit cards
MSC: Definitional

66. Credit cards
   a. are included in M1 but not M2.
   b. are included in M1 and M2.
   c. are included in M2 but not M1
   d. are not included in any measure of the money supply.

ANS: D  DIF: 1  REF: 29-1
NAT: Analytic  LOC: The role of money  TOP: Credit cards
MSC: Definitional
67. Which of the following statements is correct?
   a. Credit cards are important for our system of payments, but they are not important for analyzing the
      monetary system.
   b. Account balances that lie behind debit cards are included in M1 and in M2.
   c. People who have credit cards probably hold more money on average than people who do not have
      credit cards.
   d. A debit card is more similar to a credit card than to a check.

   ANS: B     DIF: 2     REF: 29-1
   NAT: Analytic     LOC: The role of money     TOP: Money supply
   MSC: Definitional

68. Which of the following statements is correct?
   a. Credit cards are important for our system of payments, but they are not important for analyzing the
      monetary system.
   b. Account balances that lie behind debit cards are included in neither M1 nor M2.
   c. People who have credit cards probably hold less money on average than people who do not have
      credit cards.
   d. A debit card allows its user to postpone payment for a purchase.

   ANS: C     DIF: 1     REF: 29-1
   NAT: Analytic     LOC: The role of money     TOP: Money supply
   MSC: Definitional

69. Which of the following defer payments?
   a. credit cards and debit cards
   b. neither credit cards nor debit cards
   c. credit cards but not debit cards
   d. debit cards but not credit cards

   ANS: C     DIF: 1     REF: 29-1
   NAT: Analytic     LOC: The role of money     TOP: Credit cards | Debit cards
   MSC: Definitional

Table 29-1. The information in the table pertains to an imaginary economy.

<table>
<thead>
<tr>
<th>Type of Money</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large time deposits</td>
<td>$80 billion</td>
</tr>
<tr>
<td>Small time deposits</td>
<td>$75 billion</td>
</tr>
<tr>
<td>Demand deposits</td>
<td>$75 billion</td>
</tr>
<tr>
<td>Other checkable deposits</td>
<td>$40 billion</td>
</tr>
<tr>
<td>Savings deposits</td>
<td>$10 billion</td>
</tr>
<tr>
<td>Travelers’ checks</td>
<td>$1 billion</td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>$15 billion</td>
</tr>
<tr>
<td>Currency</td>
<td>$110 billion</td>
</tr>
<tr>
<td>Credit card balances</td>
<td>$10 billion</td>
</tr>
<tr>
<td>Miscellaneous categories of M2</td>
<td>$25 billion</td>
</tr>
</tbody>
</table>

70. Refer to Table 29-1. What is the M1 money supply?
   a. $215 billion
   b. $216 billion
   c. $226 billion
   d. $301 billion

   ANS: C     DIF: 2     REF: 29-1
   NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Money supply
   MSC: Applicative
71. Refer to Table 29-1. What is the M2 money supply?
   a. $125 billion
   b. $296 billion
   c. $351 billion
   d. $431 billion

ANS: C   DIF: 2   REF: 29-1
NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money supply
MSC: Applicative

72. Given the following information, what are the values of M1 and M2?

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small time deposits</td>
<td>$650 billion</td>
</tr>
<tr>
<td>Demand deposits and other checkable deposits</td>
<td>$300 billion</td>
</tr>
<tr>
<td>Savings deposits</td>
<td>$750 billion</td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>$600 billion</td>
</tr>
<tr>
<td>Travelers' checks</td>
<td>$25 billion</td>
</tr>
<tr>
<td>Large time deposits</td>
<td>$600 billion</td>
</tr>
<tr>
<td>Currency</td>
<td>$100 billion</td>
</tr>
<tr>
<td>Miscellaneous categories in M2</td>
<td>$25 billion</td>
</tr>
</tbody>
</table>

   a. M1 = $400 billion, M2 = $2,475 billion.
   b. M1 = $125 billion, M2 = $3,025 billion.
   c. M1 = $425 billion, M2 = $2,450 billion.
   d. M1 = $425 billion, M2 = $1,875 billion.

ANS: C   DIF: 2   REF: 29-1
NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money supply
MSC: Definitional

73. The amount of currency per person in the United States is about
   a. $70.
   b. $300.
   c. $2,100.
   d. $3,300.

ANS: D   DIF: 1   REF: 29-1
NAT: Analytic   LOC: The role of money   TOP: Currency
MSC: Definitional

74. In the U.S., the average adult holds about $3,300 in
   a. currency.
   b. wealth.
   c. M1.
   d. M2.

ANS: A   DIF: 1   REF: 29-1
NAT: Analytic   LOC: The role of money   TOP: Currency
MSC: Definitional

75. Which of the following might explain why the United States has so much currency per person?
   a. U.S. citizens are holding a lot of foreign currency.
   b. Currency may be a preferable store of wealth for criminals.
   c. People use credit and debit cards more frequently.
   d. All of the above help explain the abundance of currency.

ANS: B   DIF: 1   REF: 29-1
NAT: Analytic   LOC: The role of money   TOP: Currency
MSC: Definitional
76. In the United States, currency holdings per person average about
   a. $60; one explanation for this relatively small average is that many people use credit and debit cards to make transactions.
   b. $60; one explanation for this relatively small average is that U.S. citizens hold a lot of foreign currency.
   c. $3,300; one explanation for this relatively large amount is that criminals probably prefer currency as a medium of exchange.
   d. $3,300; one explanation for this relatively large average is that U.S. citizens hold a lot of foreign currency.

ANS: C DIF: 2 REF: 29-1
NAT: Analytic LOC: The role of money TOP: Currency
MSC: Definitional

77. One surprising thing about the U.S. money stock is that
   a. banks hold so much currency relative to the public.
   b. the public holds so much currency relative to banks.
   c. there is so little currency per person.
   d. there is so much currency per person.

ANS: D DIF: 1 REF: 29-1
NAT: Analytic LOC: The role of money TOP: Currency
MSC: Definitional

Sec02 - The Monetary System - The Federal Reserve System

MULTIPLE CHOICE

1. The Federal Reserve
   a. was created in 1836.
   b. was created to facilitate the federal government’s collection of taxes as well as its expenditures.
   c. is an example of a central bank.
   d. All of the above are correct.

ANS: C DIF: 2 REF: 29-2
NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System
MSC: Interpretive

2. The Federal Reserve
   a. was created in 1913.
   b. has more than one specific job to perform.
   c. is an example of a central bank.
   d. All of the above are correct.

ANS: D DIF: 2 REF: 29-2
NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System
MSC: Interpretive

3. The members of the Federal Reserve’s Board of Governors
   a. are appointed by the president of the U.S. and confirmed by the U.S. Senate.
   b. serve six-year terms.
   c. are also the presidents of the regional Federal Reserve banks.
   d. share power equally, with no governor having any more influence or power than any other governor.

ANS: A DIF: 2 REF: 29-2
NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System
MSC: Interpretive
4. At any given time, the voting members of the Federal Open Market Committee include
   a. five of the 12 presidents of the regional Federal Reserve banks.
   b. the president of the Federal Reserve Bank of New York.
   c. the seven members of the Board of Governors.
   d. All of the above are correct.

   ANS: D  DIF: 2  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy
   TOP: Federal Open Market Committee  MSC: Definitional

5. At the Federal Reserve,
   a. the nation’s monetary policy is made by the Federal Open Market Committee, which meets twice a year.
   b. the nation’s monetary and fiscal policies are made by the Federal Open Market Committee, which meets twice a year.
   c. the nation’s monetary policy is made by the Federal Open Market Committee, which meets about every six weeks.
   d. the nation’s monetary and fiscal policies are made by the Federal Open Market Committee, which meets about every six weeks.

   ANS: C  DIF: 2  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy
   TOP: Federal Open Market Committee  MSC: Interpretive

6. If the Federal Open Market Committee decides to increase the money supply, then the Federal Reserve
   a. creates dollars and uses them to purchase government bonds from the public.
   b. sells government bonds from its portfolio to the public.
   c. creates dollars and uses them to purchase various types of stocks and bonds from the public.
   d. sells various types of stocks and bonds from its portfolio to the public.

   ANS: A  DIF: 2  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy
   TOP: Open-market operations  MSC: Interpretive

7. When the Federal Reserve sells assets from its portfolio to the public with the intent of changing the money supply,
   a. those assets are government bonds and the Fed’s reason for selling them is to increase the money supply.
   b. those assets are government bonds and the Fed’s reason for selling them is to decrease the money supply.
   c. those assets are items that are included in M2 and the Fed’s reason for selling them is to increase the money supply.
   d. those assets are items that are included in M2 and the Fed’s reason for selling them is to decrease the money supply.

   ANS: B  DIF: 2  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy
   TOP: Open-market operations  MSC: Interpretive

8. Which of the following is not correct?
   a. The twelve regional Federal Reserve Banks play a role in regulating banks and ensuring the health of the banking system.
   b. U.S. monetary policy is made by the Federal Open Market Committee.
   c. The Federal Open Market Committee meets every 12 weeks.
   d. All of the above are correct.

   ANS: C  DIF: 2  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy
   TOP: Federal Reserve System  MSC: Interpretive
9. All Fed purchases and sales of
   a. corporate stocks and bonds are conducted at the New York Fed’s trading desk.
   b. government bonds are conducted at the New York Fed’s trading desk.
   c. real estate and other real assets are conducted by the Federal Open Market Committee.
   d. All of the above are correct.
ANS: B  DIF: 2  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
MSC: Interpretive

10. Which of the following is not correct?
    a. The president of the New York Fed gets to vote at every meeting of the Federal Open Market Committee, but this is not true of the presidents of the other regional Federal Reserve Banks.
    b. The Fed’s policy decisions influence the economy’s rate of inflation in the short run and the economy’s employment and production in the long run.
    c. The Fed’s primary tool of monetary policy is open-market operations.
    d. All of the above are correct.
ANS: B  DIF: 2  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Interpretive

11. The agency responsible for regulating the money supply in the United States is
    a. the Comptroller of the Currency.
    b. the U.S. Treasury.
    c. the Federal Reserve.
    d. the U.S. Bank.
ANS: C  DIF: 1  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

12. The Federal Reserve
    a. is a central bank; it is responsible for conducting the nation’s monetary policy; and it plays a role in regulating banks.
    b. is a central bank; it is responsible for conducting the nation’s monetary policy; but it plays no role in regulating banks.
    c. is not a central bank; it is responsible for conducting the nation’s monetary policy; and it plays a role in regulating banks.
    d. is a central bank; it plays a role in regulating banks; but it is not responsible for conducting the nation’s monetary policy.
ANS: A  DIF: 1  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

13. The Federal Reserve does all except which of the following?
    a. It controls the supply of money.
    b. It acts as a lender of last resort to banks.
    c. It makes loans to large business firms.
    d. It tries to ensure the health of the banking system.
ANS: C  DIF: 1  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional
14. Members of the Board of Governors
   a. are appointed by the U.S. president, while presidents of the regional Federal Reserve Banks are appointed by those banks' boards of directors.
   b. are appointed by the regional Federal Reserve Banks' boards of directors while the presidents of the regional Federal Reserve Banks are appointed by the U.S. president.
   c. and the presidents of the regional Federal Reserve Banks are appointed by the U.S. president.
   d. and the presidents of the regional Federal Reserve Banks are appointed by the regional Federal Reserve Banks' boards of directors.

ANS: A  DIF: 1  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

15. The president of each regional Federal Reserve Bank is appointed by
   a. the U.S. president with the approval of the Senate.
   b. the Board of Governors.
   c. the voting members of the Federal Open Market Committee.
   d. the board of directors of that regional Federal Reserve Bank.

ANS: D  DIF: 2  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

16. Decisions by policymakers concerning the money supply constitute
   a. monetary policy.
   b. fiscal policy.
   c. banking policy.
   d. operations policy.

ANS: A  DIF: 1  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Monetary policy
MSC: Definitional

17. Which of the following entities actually executes open-market operations?
   a. the Board of Governors
   b. the New York Federal Reserve Bank
   c. the Federal Open Market Committee
   d. the Open Market Committees of the regional Federal Reserve Banks

ANS: B  DIF: 1  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

18. Which group within the Federal Reserve System meets to discuss changes in the economy and determine monetary policy?
   a. the Board of Governors
   b. the FOMC
   c. the regional Federal Reserve Bank presidents
   d. the Central Bank Policy Commission

ANS: B  DIF: 1  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

19. The New York Federal Reserve Bank
   a. president always gets to vote at the FOMC meetings.
   b. conducts open market transactions.
   c. is one of 12 regional Federal Reserve Banks.
   d. All of the above are correct.

ANS: D  DIF: 2  REF: 29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional
Chapter 29 / The Monetary System

20. All of the presidents of the regional Federal Reserve banks
   a. attend each FOMC meeting.
   b. have voting rights at each FOMC meeting.
   c. are appointed by the president of the U.S. and confirmed by the U.S. Senate.
   d. All of the above are correct.

ANS: A  DIF:  2  REF:  29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

21. The Board of Governors
   a. is currently chaired by the Speaker of the House of Representatives.
   b. has as its members individuals who are appointed by the president and confirmed by the Senate.
   c. has 10 members.
   d. All of the above are correct.

ANS: B  DIF:  1  REF:  29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

22. Which of the following is correct?
   a. The Federal Reserve has 14 regional banks. The Board of Governors has 12 members who serve 7-year terms.
   b. The Federal Reserve has 14 regional banks. The Board of Governors has 7 members who serve 14-year terms.
   c. The Federal Reserve has 12 regional banks. The Board of Governors has 12 members who serve 7-year terms.
   d. The Federal Reserve has 12 regional banks. The Board of Governors has 7 members who serve 14-year terms.

ANS: D  DIF:  1  REF:  29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

23. Which of the following statements about the Federal Reserve is not correct?
   a. The members of the Board of Governors are also presidents of the Federal Reserve’s regional banks.
   b. The Federal Open Market Committee makes monetary policy.
   c. All members of the Board of Governors sit on the Federal Open Market Committee.
   d. The Federal Reserve serves as a bank regulator.

ANS: A  DIF:  1  REF:  29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

24. Which individuals among the following serve four-year terms?
   a. the members of the Board of Governors
   b. the Chair of the Board of Governors
   c. the members of the FOMC
   d. All of the above are correct.

ANS: B  DIF:  1  REF:  29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional

25. Who was appointed chairman of the Board of Governors in 2005 by President George W. Bush?
   a. Alan Greenspan
   b. Bennett McCallum
   c. R. Glenn Hubbard
   d. Ben Bernanke

ANS: D  DIF:  1  REF:  29-2
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
MSC: Definitional
26. The 12 regional Federal Reserve Banks
   a. are not allowed to make loans to banks in their districts.
   b. regulate banks in their districts.
   c. have more voting members on the FOMC than does the Board of Governors.
   d. are each headed by a member of the Board of Governors.

   ANS: B  DIF: 1  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
   MSC: Definitional

27. Which of the following does the Federal Reserve not do?
   a. conduct monetary policy
   b. act as a lender of last resort
   c. convert Federal Reserve Notes into gold
   d. serve as a bank regulator

   ANS: C  DIF: 1  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
   MSC: Definitional

28. At any meeting of the Federal Open Market Committee, that committee’s voting members consist of
   a. 5 Federal Reserve Regional Bank Presidents and all the members of the Board of Governors.
   b. 5 Federal Reserve Regional Bank Presidents and 5 members of the Board of Governors.
   c. 12 Federal Reserve Regional Bank Presidents and all the members of the Board of Governors.
   d. 12 Federal Reserve Regional Bank Presidents and 5 members of the Board of Governors.

   ANS: A  DIF: 2  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Open Market Committee
   MSC: Definitional

29. Who among the following is not always a voting member of the FOMC?
   a. the president of the New York Fed
   b. the Chairman of the Board of Governors
   c. a member of the Board of Governors other than the chair
   d. the president of the Philadelphia Fed

   ANS: D  DIF: 1  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Open Market Committee
   MSC: Definitional

30. The problem faced by the Fed stems from two of the Ten Principles of Economics. Those principles are as follows:
   a. (1) Governments can usually improve market outcomes, and (2) society faces a short-run trade-off
      between inflation and unemployment.
   b. (1) Governments can sometimes improve market outcomes, and (2) interest rates fall when the
      government prints too much money.
   c. (1) Society faces a short-run trade-off between inflation and unemployment, and (2) prices rise
      when the government prints too much money.
   d. (1) Society faces a long-run trade-off between inflation and unemployment, and (2) prices rise
      when the government prints too much money.

   ANS: C  DIF: 1  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Monetary policy
   MSC: Interpretive

31. Monetary policy affects employment
   a. only in the long run.
   b. only in the short run.
   c. in both the long run and the short run.
   d. in neither the long run nor the short run.

   ANS: B  DIF: 2  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Monetary policy
   MSC: Applicative
32. Over one time horizon or another, Fed policy decisions influence
   a. inflation and employment.
   b. inflation but not employment.
   c. employment but not inflation.
   d. neither inflation nor employment.

   ANS: A  DIF: 2  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Inflation | Unemployment
   MSC: Definitional

33. There is a
   a. short-run tradeoff between inflation and unemployment.
   b. short-run tradeoff between an increase in the money supply and inflation.
   c. long-run tradeoff between inflation and unemployment.
   d. long-run tradeoff between an increase in the money supply and inflation.

   ANS: A  DIF: 1  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Inflation | Unemployment
   MSC: Definitional

34. The Fed can influence unemployment in
   a. the short run and in the long run.
   b. the short run, but not in the long run.
   c. the long run, but not in the short run.
   d. neither the short nor the long run.

   ANS: B  DIF: 2  REF: 29-2
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System
   MSC: Definitional

Sec03 - The Monetary System - Banks and the Money Supply

MULTIPLE CHOICE

1. In a system of 100-percent-reserve banking,
   a. banks do not make loans.
   b. currency is the only form of money.
   c. deposits are banks’ only assets.
   d. All of the above are correct.

   ANS: A  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: The role of money  TOP: Reserves
   MSC: Interpretive

2. In a system of 100-percent-reserve banking,
   a. banks do not accept deposits.
   b. banks do not influence the supply of money.
   c. loans are the only asset item for banks.
   d. All of the above are correct.

   ANS: B  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: The role of money  TOP: Reserves | Money supply
   MSC: Interpretive

3. In a system of 100-percent-reserve banking, the purpose of a bank is to
   a. make loans to households.
   b. influence the money supply.
   c. give depositors a safe place to keep their money.
   d. buy and sell gold.

   ANS: C  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: The role of money  TOP: Reserves
   MSC: Interpretive
4. In a fractional-reserve banking system, a bank
   a. does not make loans.
   b. does not accept deposits.
   c. keeps only a fraction of its reserves in deposits.
   d. keeps only a fraction of its deposits in reserve.

   ANS: D    DIF: 1    REF: 29-3
   NAT: Analytic    LOC: The role of money    TOP: Reserves
   MSC: Definitional

5. On a T-account for a bank,
   a. reserves and deposits are both assets.
   b. reserves are assets and deposits are liabilities.
   c. deposits are assets and reserves are liabilities.
   d. reserves and deposits are both liabilities.

   ANS: B    DIF: 2    REF: 29-3
   NAT: Analytic    LOC: The role of money    TOP: T-accounts
   MSC: Interpretable

6. If a bank has a reserve ratio of 8 percent, then
   a. government regulation requires the bank to use at least 8 percent of its deposits to make loans.
   b. the bank’s ratio of loans to deposits is 8 percent.
   c. the bank keeps 8 percent of its deposits as reserves and loans out the rest.
   d. the bank keeps 8 percent of its assets as reserves and loans out the rest.

   ANS: C    DIF: 2    REF: 29-3
   NAT: Analytic    LOC: The role of money    TOP: Reserve ratio
   MSC: Interpretable

7. Suppose that banks desire to hold no excess reserves, the reserve requirement is 5 percent, and a bank receives
   a new deposit of $1,000. This bank
   a. will increase its required reserves by $50.
   b. will initially see its total reserves increase by $1,000.
   c. will be able to make a new loan of $950.
   d. All of the above are correct.

   ANS: D    DIF: 2    REF: 29-3
   NAT: Analytic    LOC: Monetary and fiscal policy    TOP: Reserves
   MSC: Applicative

8. Suppose banks desire to hold no excess reserves. If the reserve requirement is 10 percent and if a bank
   receives a new deposit of $10, then this bank
   a. must increase its required reserves by $1.
   b. will initially see its total reserves increase by $1.
   c. will be able to make new loans up to a maximum of $1.
   d. All of the above are correct.

   ANS: A    DIF: 2    REF: 29-3
   NAT: Analytic    LOC: Monetary and fiscal policy    TOP: Reserves
   MSC: Applicative

9. Suppose banks desire to hold no excess reserves. If the reserve requirement is 15 percent and if a bank
   receives a new deposit of $10, then this bank
   a. must increase its required reserves by $10.
   b. will initially see its total reserves increase by $15.
   c. will be able to make new loans up to a maximum of $8.50.
   d. All of the above are correct.

   ANS: C    DIF: 2    REF: 29-3
   NAT: Analytic    LOC: Monetary and fiscal policy    TOP: Reserves
   MSC: Applicative
10. Suppose that banks desire to hold no excess reserves. If the reserve requirement is 5 percent and a bank receives a new deposit of $400, it
   a. must increase required reserves by $20.
   b. will initially see reserves increase by $400.
   c. will be able to use this deposit to make new loans amounting to $380.
   d. All of the above are correct.
   ANS: D      DIF: 2      REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
   MSC: Applicative

11. If banks desire to hold no excess reserves, the reserve ratio is 10 percent, and a bank that was previously just meeting its reserve requirement receives a new deposit of $400, then initially the bank has a
   a. $400 increase in excess reserves and no increase in required reserves.
   b. $400 increase in required reserves and no increase in excess reserves.
   c. $360 increase in excess reserves and $40 increase in required reserves.
   d. $40 increase in excess reserves and $360 increase in required reserves.
   ANS: C      DIF: 2      REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
   MSC: Applicative

12. Suppose the Fed requires banks to hold 10 percent of their deposits as reserves. A bank has $20,000 of excess reserves and then sells the Fed a Treasury bill for $9,000. How much does this bank now have to lend out if it decides to hold only required reserves?
   a. $29,000
   b. $28,100
   c. $19,100
   d. $11,000
   ANS: A      DIF: 3      REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
   MSC: Applicative

13. Suppose banks desire to hold no excess reserves and that the Fed has set a reserve requirement of 10 percent. If you deposit $9,000 into First Jayhawk Bank,
   a. First Jayhawk’s required reserves increase by $900.
   b. First Jayhawk will be able to lend out $8,100.
   c. First Jayhawk’s assets and liabilities both will increase by $9,000.
   d. All of the above are correct.
   ANS: D      DIF: 2      REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
   MSC: Applicative

Table 29-2. An economy starts with $10,000 in currency. All of this currency is deposited into a single bank, and the bank then makes loans totaling $9,250. The T-account of the bank is shown below.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>Deposits</td>
</tr>
<tr>
<td>$750</td>
<td>$10,000</td>
</tr>
<tr>
<td>Loans</td>
<td></td>
</tr>
<tr>
<td>9,250</td>
<td></td>
</tr>
</tbody>
</table>

14. Refer to Table 29-2. This bank operates in a
   a. system of 0-percent-reserve banking.
   b. system of 100-percent-reserve banking.
   c. system of Federal-Reserve banking.
   d. fractional-reserve banking system.
   ANS: D      DIF: 1      REF: 29-3
   NAT: Analytic  LOC: The role of money  TOP: Fractional-reserve banking
   MSC: Applicative
15. **Refer to Table 29-2.** The bank’s reserve ratio is
   a. 7.50 percent.
   b. 8.12 percent.
   c. 92.50 percent.
   d. 100 percent.

   **ANS:** A  **DIF:** 2  **REF:** 29-3  
   **NAT:** Analytic  **LOC:** The role of money  **TOP:** Reserve ratio  
   **MSC:** Applicative

16. **Refer to Table 29-2.** If all banks in the economy have the same reserve ratio as this bank, then the value of the economy’s money multiplier is
   a. 1.33.
   b. 10.00.
   c. 10.81.
   d. 13.33.

   **ANS:** D  **DIF:** 2  **REF:** 29-3  
   **NAT:** Analytic  **LOC:** The role of money  **TOP:** Money multiplier  
   **MSC:** Applicative

17. **Refer to Table 29-2.** If all banks in the economy have the same reserve ratio as this bank, then an increase in reserves of $150 for this bank has the potential to increase deposits for all banks by
   a. $866.67.
   b. $1,666.67.
   c. $2,000.00.
   d. an infinite amount.

   **ANS:** C  **DIF:** 3  **REF:** 29-3  
   **NAT:** Analytic  **LOC:** The role of money  **TOP:** Money multiplier  
   **MSC:** Applicative

**Table 29-3.**

<table>
<thead>
<tr>
<th>The First Bank of Johnson City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
</tr>
<tr>
<td>Reserves</td>
</tr>
<tr>
<td>$2,000</td>
</tr>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>8,000</td>
</tr>
</tbody>
</table>

18. **Refer to Table 29-3.** The reserve ratio for this bank is
   a. 0 percent.
   b. 20 percent.
   c. 80 percent.
   d. 100 percent.

   **ANS:** B  **DIF:** 1  **REF:** 29-3  
   **NAT:** Analytic  **LOC:** Monetary and fiscal policy  **TOP:** Reserve ratio  
   **MSC:** Applicative

19. **Refer to Table 29-3.** If $1,000 is deposited into the First Bank of Johnson City, and the bank takes no other actions, its
   a. reserves will increase by $200.
   b. liabilities will decrease by $1,000.
   c. assets will increase by $1,000.
   d. reserves will increase by $800.

   **ANS:** C  **DIF:** 2  **REF:** 29-3  
   **NAT:** Analytic  **LOC:** Monetary and fiscal policy  **TOP:** Reserves  
   **MSC:** Applicative
20. **Refer to Table 29-3.** Starting from the situation as depicted by the T-account, if someone deposits $500 into the First Bank of Johnson City, and if the bank makes new loans so as to keep its reserve ratio unchanged, then the amount of new loans that it makes will be
   a. $320.
   b. $400.
   c. $680.
   d. $750.

   **ANS:** B  **DIF:** 2  **REF:** 29-3

   **NAT:** Analytic  **LOC:** Monetary and fiscal policy  **TOP:** Reserves

   **MSC:** Applicative

---

**Table 29-4.**

<table>
<thead>
<tr>
<th>The First Bank of Wahooton</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
</tr>
<tr>
<td>Reserves</td>
</tr>
<tr>
<td>$25,000</td>
</tr>
<tr>
<td>Loans</td>
</tr>
<tr>
<td>125,000</td>
</tr>
</tbody>
</table>

21. **Refer to Table 29-4.** If the bank faces a reserve requirement of 10 percent, then the bank
   a. is in a position to make a new loan of $15,000.
   b. has fewer reserves than are required.
   c. has excess reserves of $10,000.
   d. None of the above is correct.

   **ANS:** C  **DIF:** 2  **REF:** 29-3

   **NAT:** Analytic  **LOC:** Monetary and fiscal policy  **TOP:** Reserves

   **MSC:** Applicative

22. **Refer to Table 29-4.** If the bank faces a reserve requirement of 10 percent, then the bank
   a. is in a position to make a new loan of $10,000.
   b. has fewer reserves than are required.
   c. has excess reserves of $12,500.
   d. None of the above is correct.

   **ANS:** A  **DIF:** 2  **REF:** 29-3

   **NAT:** Analytic  **LOC:** Monetary and fiscal policy  **TOP:** Reserves

   **MSC:** Applicative

23. **Refer to Table 29-4.** Suppose the bank faces a reserve requirement of 10 percent. Starting from the situation as depicted by the T-account, a customer deposits an additional $50,000 into his account at the bank. If the bank takes no other action it will
   a. have $65,000 in excess reserves.
   b. have $55,000 in excess reserves.
   c. need to raise an additional $5,000 of reserves to meet the reserve requirement
   d. None of the above is correct.

   **ANS:** B  **DIF:** 2  **REF:** 29-3

   **NAT:** Analytic  **LOC:** Monetary and fiscal policy  **TOP:** Reserves

   **MSC:** Applicative

24. **Refer to Table 29-4.** If the bank faces a reserve requirement of 20 percent, then it
   a. has $10,000 of excess reserves.
   b. needs $10,000 more reserves to meet its reserve requirements.
   c. needs $5,000 more reserves to meet its reserve requirements.
   d. just meets its reserve requirement.

   **ANS:** C  **DIF:** 1  **REF:** 29-3

   **NAT:** Analytic  **LOC:** Monetary and fiscal policy  **TOP:** Reserves

   **MSC:** Applicative
25. Refer to Table 29-4. If the First Bank of Wahooton is holding $4,000 in excess reserves, then the reserve requirement with which it must comply is
   a. 4 percent.
   b. 6 percent.
   c. 12 percent.
   d. 14 percent.

ANS: D  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
MSC: Applicative

Table 29-5.
Bank of Kopeka

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>$2,000</td>
</tr>
<tr>
<td>Loans</td>
<td>18,000</td>
</tr>
</tbody>
</table>

26. Refer to Table 29-5. From the table it follows that Bank of Kopeka operates in a
   a. fractional-reserve banking system, since its reserves are less than its deposits.
   b. fractional-reserve banking system, since its reserves are less than its loans.
   c. 100-percent-reserve banking system, since its assets are equal to its liabilities.
   d. 100-percent-reserve banking system if the Fed’s reserve requirement is 10 percent; otherwise, it operates in a fractional-reserve banking system.

ANS: A  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Fractional-reserve banking
MSC: Applicative

27. Refer to Table 29-5. The Bank of Kopeka’s reserve ratio is
   a. 1 percent.
   b. 5 percent.
   c. 10 percent.
   d. 20 percent.

ANS: C  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserve ratio
MSC: Applicative

28. Refer to Table 29-5. Assume there is a reserve requirement and the Bank of Kopeka is exactly in compliance with that requirement. Assume the same is true for all other banks. Lastly, assume people hold only deposits and no currency. What is the money multiplier?
   a. 5
   b. 10
   c. 15
   d. 20

ANS: B  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
MSC: Applicative

29. Refer to Table 29-5. If the Fed’s reserve requirement is 9 percent, then what quantity of excess reserves does the Bank of Kopeka now hold?
   a. $200
   b. $250
   c. $400
   d. $1,000

ANS: A  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserve requirements
MSC: Applicative
30. Refer to Table 29-5. Assume the Fed’s reserve requirement is 9 percent and all banks besides the Bank of Kopeka are exactly in compliance with the 9 percent requirement. Further assume that people hold only deposits and no currency. Starting from the situation as depicted by the T-account, if the Bank of Kopeka decides to make new loans so as to end up with no excess reserves, then by how much does the money supply eventually increase?
   a. $555.00.
   b. $1,200.00.
   c. $1,777.78.
   d. $2,222.22.

ANS: D DIF: 2 REF: 29-3
NAT: Analytic LOC: Monetary and fiscal policy TOP: Money multiplier
MSC: Analytical

31. Refer to Table 29-6. If the Bank of Springfield has lent out all the money it can given its level of deposits, then what is the reserve requirement?
   a. 5.00 percent
   b. 8.00 percent
   c. 8.42 percent
   d. 95.00 percent

ANS: B DIF: 1 REF: 29-3
NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserve ratio
MSC: Applicative

32. Refer to Table 29-6. Assuming the Bank of Springfield and all other banks have the same reserve ratio, then what is the value of the money multiplier?
   a. 5.0
   b. 7.5
   c. 10.00
   d. 12.5

ANS: D DIF: 2 REF: 29-3
NAT: Analytic LOC: Monetary and fiscal policy TOP: Money multiplier
MSC: Applicative

33. Refer to Table 29-6. If the Fed requires a reserve ratio of 6 percent, then what quantity of excess reserves does the Bank of Springfield now hold?
   a. $1,200
   b. $2,400
   c. $2,880
   d. $4,800

ANS: D DIF: 2 REF: 29-3
NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserve ratio
MSC: Applicative

Table 29-6.

<table>
<thead>
<tr>
<th>Bank of Springfield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
</tr>
<tr>
<td>Reserves</td>
</tr>
<tr>
<td>Loans</td>
</tr>
</tbody>
</table>

31. Refer to Table 29-6. If the Bank of Springfield has lent out all the money it can given its level of deposits, then what is the reserve requirement?
   a. 5.00 percent
   b. 8.00 percent
   c. 8.42 percent
   d. 95.00 percent

ANS: B DIF: 1 REF: 29-3
NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserve ratio
MSC: Applicative

32. Refer to Table 29-6. Assuming the Bank of Springfield and all other banks have the same reserve ratio, then what is the value of the money multiplier?
   a. 5.0
   b. 7.5
   c. 10.00
   d. 12.5

ANS: D DIF: 2 REF: 29-3
NAT: Analytic LOC: Monetary and fiscal policy TOP: Money multiplier
MSC: Applicative

33. Refer to Table 29-6. If the Fed requires a reserve ratio of 6 percent, then what quantity of excess reserves does the Bank of Springfield now hold?
   a. $1,200
   b. $2,400
   c. $2,880
   d. $4,800

ANS: D DIF: 2 REF: 29-3
NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserve ratio
MSC: Applicative
34. **Refer to Table 29-6.** Assume the Fed’s reserve requirement is 6 percent and that the Bank of Springfield makes new loans so as to make its new reserve ratio 6 percent. From then on, no bank holds any excess reserves. Assume also that people hold only deposits and no currency. Then by what amount does the economy’s money supply increase?
   a. $50,200
   b. $72,000
   c. $80,000
   d. $106,000

   **ANS:** C  **DIF:** 2  **REF:** 29-3
   **NAT:** Analytic  **LOC:** Monetary and fiscal policy  **TOP:** Money multiplier  **MSC:** Analytical

35. Which of the following statements is correct?
   a. In the special case of 100-percent-reserve banking, the reserve ratio is 1, the money multiplier is 2, and banks create money.
   b. In the special case of 100-percent-reserve banking, the reserve ratio is 1, the money multiplier is 1, and banks do not create money.
   c. When the reserve ratio is 0.5, then the money multiplier is 1 and banks do not create money.
   d. When the reserve ratio is 0.125, then the money multiplier is 8, and each bank loans $8 for every $1 that it accept in deposits.

   **ANS:** B  **DIF:** 2  **REF:** 29-3
   **NAT:** Analytic  **LOC:** The role of money  **TOP:** Money multiplier  **MSC:** Applicative

36. Which tool of monetary policy does the Federal Reserve use most often?
   a. adjustments to long-term interest rates
   b. open-market operations
   c. changes in reserve requirements
   d. changes in the discount rate

   **ANS:** B  **DIF:** 1  **REF:** 29-3
   **NAT:** Analytic  **LOC:** Monetary and fiscal policy  **TOP:** Monetary policy  **MSC:** Applicative

37. Regulations on the
   a. maximum amount of reserves that banks can hold against deposits are called reserve requirements.
   b. minimum amount of reserves that banks must hold against deposits are called reserve requirements.
   c. extent to which banks can buy and sell bonds are called open-market requirements.
   d. extent to which banks can make new loans are called open-market requirements.

   **ANS:** B  **DIF:** 1  **REF:** 29-3
   **NAT:** Analytic  **LOC:** Monetary and fiscal policy  **TOP:** Reserve requirements  **MSC:** Definitional

38. A problem that the Fed faces when it attempts to control the money supply is that
   a. the 100-percent-reserve banking system in the U.S. makes it difficult for the Fed to carry out its monetary policy.
   b. the Fed has to get the approval of the U.S. Treasury Department whenever it uses any of its monetary policy tools.
   c. the Fed does not have a tool that it can use to change the money supply by either a small amount or a large amount.
   d. the Fed does not control the amount of money that households choose to hold as deposits in banks.

   **ANS:** D  **DIF:** 2  **REF:** 29-3
   **NAT:** Analytic  **LOC:** Monetary and fiscal policy  **TOP:** Monetary policy  **MSC:** Interpretive
39. A problem that the Fed faces when it attempts to control the money supply is that
a. since the U.S. has a fractional-reserve banking system, the amount of money in the economy
depends in part on the behavior of depositors and bankers.
b. the Fed has to get the approval of the U.S. Treasury Department whenever it uses any of its
monetary policy tools.
c. while the Fed has the ability to change the money supply by a large amount, it does not have the
ability to change it by a small amount.
d. federal legislation in the 1950s stripped the Fed of its power to act as a lender of last resort to
banks.

ANS: A  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Monetary policy
MSC: Interpretive

40. A bank’s assets equal its liabilities under
a. both 100-percent-reserve banking and fractional-reserve banking.
b. neither 100-percent-reserve banking nor fractional-reserve banking.
c. 100-percent-reserve banking but not under fractional-reserve banking.
d. fractional-reserve banking but not under 100-percent-reserve banking.

ANS: A  DIF: 2  REF: 29-3
NAT: Analytic  LOC: The Study of economics, and the definitions of economics
TOP: Banks  MSC: Interpretive

41. If the reserve ratio for all banks is 20 percent, then $100 of new reserves can generate
a. $60 of new money in the economy.
b. $250 of new money in the economy.
c. $500 of new money in the economy.
d. $2,000 of new money in the economy.

ANS: C  DIF: 2  REF: 29-3
NAT: Analytic  LOC: The Study of economics, and the definitions of economics
TOP: Money multiplier  MSC: Applicative

42. If $300 of new reserves generates $800 of new money in the economy, then the reserve ratio is
a. 2.7 percent.
b. 12.5 percent.
c. 37.5 percent.
d. 40 percent.

ANS: C  DIF: 2  REF: 29-3
NAT: Analytic  LOC: The Study of economics, and the definitions of economics
TOP: Reserve ratio  MSC: Applicative

43. If the reserve ratio is 12.5 percent, then $5,600 of money can be generated by
a. $64 of new reserves.
b. $448 of new reserves.
c. $700 of new reserves.
d. $800 of new reserves.

ANS: C  DIF: 2  REF: 29-3
NAT: Analytic  LOC: The Study of economics, and the definitions of economics
TOP: Money multiplier  MSC: Applicative

44. If the reserve ratio is 4 percent, then $81,250 of new money can be generated by
a. $325 of new reserves.
b. $3,250 of new reserves.
c. $20,312.50 of new reserves.
d. $2,031,250 of new reserves.

ANS: B  DIF: 2  REF: 29-3
NAT: Analytic  LOC: The Study of economics, and the definitions of economics
TOP: Money multiplier  MSC: Applicative
45. When the Fed buys government bonds,
   a. the money supply increases and the federal funds rate increases.
   b. the money supply increases and the federal funds rate decreases.
   c. the money supply decreases and the federal funds rate increases.
   d. the money supply decreases and the federal funds rate decreases.

ANS: B  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
MSC: Interpretive

46. A sale of government bonds by the Fed
   a. increases the money supply and increases the federal funds rate.
   b. increases the money supply and decreases the federal funds rate.
   c. decreases the money supply and increases the federal funds rate.
   d. decreases the money supply and decreases the federal funds rate.

ANS: C  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
MSC: Interpretive

47. When the Fed purchases $200 worth of government bonds from the public, the U.S. money supply eventually increases by
   a. more than $200.
   b. exactly $200.
   c. less than $200.
   d. All of the above are possible.

ANS: A  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
MSC: Applicative

48. Which of the following is correct? When there is a reserve requirement, banks
   a. must hold exactly the required quantity of reserves.
   b. may hold more than, but not less than, the required quantity of reserves.
   c. may hold less than, but not more than, the required quantity of reserves.
   d. must seek the Fed’s permission whenever they wish to expand or contract their loans to customers.

ANS: B  DIF: 2  REF: 29-3
NAT: Analytic  LOC: The Study of economics, and the definitions of economics  TOP: Reserve requirements
MSC: Interpretive

49. The discount rate is the interest rate that
   a. banks charge one another for loans.
   b. banks charge the Fed for loans.
   c. the Fed charges banks for loans.
   d. the Fed charges Congress for loans.

ANS: C  DIF: 1  REF: 29-3
NAT: Analytic  LOC: The Study of economics, and the definitions of economics  TOP: Discount rate
MSC: Definitional

50. The federal funds rate is the interest rate that
   a. banks charge one another for loans.
   b. banks charge the Fed for loans.
   c. the Fed charges banks for loans.
   d. the Fed charges Congress for loans.

ANS: A  DIF: 1  REF: 29-3
NAT: Analytic  LOC: The Study of economics, and the definitions of economics  TOP: Discount rate
MSC: Definitional
51. To increase the money supply, the Fed can
   a. buy government bonds or increase the discount rate.
   b. buy government bonds or decrease the discount rate.
   c. sell government bonds or increase the discount rate.
   d. sell government bonds or decrease the discount rate.

   ANS: B  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations | Discount rate  MSC: Interpretive

52. To decrease the money supply, the Fed can
   a. buy government bonds or increase the discount rate.
   b. buy government bonds or decrease the discount rate.
   c. sell government bonds or increase the discount rate.
   d. sell government bonds or decrease the discount rate.

   ANS: C  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations | Discount rate  MSC: Interpretive

53. The Fed’s control of the money supply is not precise because
   a. Congress can also make changes to the money supply.
   b. there are not always government bonds available for purchase when the Fed wants to perform open-market operations.
   c. the Fed does not know where all U.S. currency is located.
   d. the amount of money in the economy depends in part on the behavior of depositors and bankers.

   ANS: D  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Reserve System  MSC: Interpretive

54. Today, bank runs are not a major problem for the U.S. banking system because
   a. bank runs are now illegal.
   b. banks now hold 100 percent of their deposits in reserve.
   c. banks are now all government-operated.
   d. the federal government now guarantees the safety of deposits at most banks.

   ANS: D  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: The role of government  TOP: Banks  MSC: Interpretive

55. In a 100-percent-reserve banking system,
   a. banks can create money by issuing currency.
   b. banks can create money by lending out reserves.
   c. the Fed can increase the money supply with open-market sales.
   d. banks hold as many reserves as they hold deposits.

   ANS: D  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves  MSC: Definitional

56. In a 100-percent-reserve banking system, if people decided to decrease the amount of currency they held by increasing the amount they held in checkable deposits, then
   a. M1 would increase.
   b. M1 would decrease.
   c. M1 would not change.
   d. M1 might rise or fall.

   ANS: C  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves  MSC: Applicative
57. On a bank's T-account,
   a. both deposits and reserves are assets.
   b. both deposits and reserves are liabilities.
   c. deposits are assets and reserves are liabilities.
   d. reserves are assets and deposits are liabilities.

   ANS: D DIF: 1 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: T-accounts
   MSC: Definitional

58. A bank's
   a. reserves and the deposits of its customers are both assets.
   b. reserves and the deposits of its customers are both liabilities.
   c. reserves are assets and the deposits of its customers are liabilities.
   d. reserves are liabilities and the deposits of its customers are assets.

   ANS: C DIF: 1 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Banks | T-accounts
   MSC: Definitional

59. A bank's assets include
   a. both its reserves and the deposits of its customers.
   b. neither its reserves nor the deposits of its customers.
   c. its reserves, but not the deposits of its customers.
   d. the deposits of its customers, but not its reserves.

   ANS: C DIF: 1 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Banks | T-accounts
   MSC: Definitional

60. A bank's liabilities include
   a. both its reserves and the deposits of its customers.
   b. neither its reserves nor the deposits of its customers.
   c. its reserves, but not the deposits of its customers.
   d. the deposits of its customers, but not its reserves.

   ANS: D DIF: 1 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Banks | T-accounts
   MSC: Definitional

61. A bank loans Kellie's Print Shop $350,000 to remodel a building near campus to use as a new store. On their respective balance sheets, this loan is
   a. an asset for the bank and a liability for Kellie's Print Shop. The loan increases the money supply.
   b. an asset for the bank and a liability for Kellie's Print Shop. The loan does not increase the money supply.
   c. a liability for the bank and an asset for Kellie's Print Shop. The loan increases the money supply.
   d. a liability for the bank and an asset for Kellie's Print Shop. The loan does not increase the money supply.

   ANS: A DIF: 2 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Banks | T-accounts
   MSC: Interpretive

62. Suppose a bank's reserve ratio is 5 percent and the bank has $1,000 in deposits. Its reserves amount to
   a. $5.
   b. $50.
   c. $95.
   d. $950.

   ANS: B DIF: 1 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserves
   MSC: Applicative
63. Suppose a bank’s reserve ratio is 10 percent and the bank has $2,000 in deposits. Its reserves amount to
   a. $20.
   b. $200.
   c. $400.
   d. $1,800.
   ANS: B  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
   MSC: Applicative

64. Suppose a bank’s reserve ratio is 6.5 percent and the bank has $1,950 in reserve. Its deposits amount to
   a. $62.25.
   b. $126.75.
   c. $22,500.00
   d. $30,000.00.
   ANS: D  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
   MSC: Applicative

65. Suppose a bank has a 10 percent reserve requirement, $5,000 in deposits, and has loaned out all it can given
   the reserve requirement.
   a. It has $50 in reserves and $4,950 in loans.
   b. It has $500 in reserves and $4,500 in loans.
   c. It has $555 in reserves and $4,445 in loans.
   d. None of the above is correct.
   ANS: B  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
   MSC: Applicative

66. Suppose a bank has a 10 percent reserve requirement, $4,000 in deposits, and has loaned out all it can given
   the reserve requirement.
   a. It has $40 in reserves and $3,960 in loans.
   b. It has $400 in reserves and $3,600 in loans.
   c. It has $444 in reserves and $3,556 in loans.
   d. None of the above is correct.
   ANS: B  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
   MSC: Applicative

67. Suppose a bank has $10,000 in deposits and $8,000 in loans. It has loaned out all it can given the reserve
   requirement. It follows that the reserve requirement is
   a. 2 percent.
   b. 12.5 percent.
   c. 20 percent.
   d. 80 percent.
   ANS: C  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
   MSC: Applicative

68. Suppose a bank has $200,000 in deposits and $190,000 in loans. It has loaned out all it can. It has a reserve
   ratio of
   a. 2.5 percent.
   b. 5 percent.
   c. 9.5 percent.
   d. 10 percent.
   ANS: B  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
   MSC: Applicative
69. The manager of the bank where you work tells you that your bank has $5 million in excess reserves. She also
tells you that the bank has $300 million in deposits and $255 million dollars in loans. Given this information
you find that the reserve requirement must be
   a. 50/255.
   b. 40/255.
   c. 50/300.
   d. 40/300.

ANS: D  DIF: 3  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
MSC: Applicative

70. Suppose the banking system currently has $300 billion in reserves; the reserve requirement is 10 percent; and
excess reserves amount to $3 billion. What is the level of deposits?
a. $3,300 billion
b. $2,970 billion
c. $2,700 billion
d. $2,673 billion

ANS: B  DIF: 3  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves
MSC: Applicative

71. If you deposit $100 of currency into a demand deposit at a bank, this action by itself
   a. does not change the money supply.
   b. increases the money supply.
   c. decreases the money supply.
   d. has an indeterminate effect on the money supply.

ANS: A  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Banks | Money supply
MSC: Applicative

72. When a bank loans out $1,000, the money supply
   a. does not change.
   b. decreases.
   c. increases.
   d. may do any of the above.

ANS: C  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Banks | Money supply
MSC: Definitional

73. Under a fractional-reserve banking system, banks
   a. hold more reserves than deposits.
   b. generally lend out a majority of the funds deposited.
   c. cause the money supply to fall by lending out reserves.
   d. All of the above are correct.

ANS: B  DIF: 1  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Fractional-reserve banking
MSC: Definitional

74. If a bank uses $100 of excess reserves to make a new loan when the reserve ratio is 20 percent, this action by
itself initially makes the money supply
   a. and wealth increase by $100.
   b. and wealth decrease by $100.
   c. increase by $100 while wealth does not change.
   d. decrease by $100 while wealth decreases by $100.

ANS: C  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
MSC: Definitional
75. As the reserve ratio increases, the money multiplier
   a. increases.
   b. does not change.
   c. decreases.
   d. could do any of the above.
   ANS: C  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative

76. If the central bank in some country lowered the reserve requirement, then the money multiplier for that country
   a. would increase.
   b. would not change.
   c. would decrease.
   d. could do any of the above.
   ANS: A  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative

77. If the reserve ratio is 2.5 percent, then the money multiplier is
   a. 40.
   b. 25.
   c. 2.5.
   d. 1.25.
   ANS: A  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative

78. If the reserve ratio is 4 percent, then the money multiplier is
   a. 25.
   b. 20.
   c. 4.
   d. 2.
   ANS: A  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative

79. If the reserve ratio is 5 percent, then the money multiplier is
   a. 25.
   b. 20.
   c. 2.5.
   d. 1.25.
   ANS: B  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative

80. If the reserve ratio is 10 percent, the money multiplier is
   a. 100.
   b. 10.
   c. 9/10.
   d. 1/10.
   ANS: B  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative
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81. If the reserve ratio is 12.5 percent, the money multiplier is
   a. 6.25.
   b. 8.
   c. 12.5.
   d. 25.

   ANS: B   DIF: 1   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Applicative

82. If the reserve ratio is 20 percent, the money multiplier is
   a. 2.
   b. 4.
   c. 5.
   d. 8.

   ANS: C   DIF: 1   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Applicative

83. If the reserve ratio increased from 10 percent to 20 percent, the money multiplier would
   a. rise from 10 to 20.
   b. rise from 5 to 10.
   c. fall from 10 to 5.
   d. not change.

   ANS: C   DIF: 1   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Applicative

84. If \( R \) represents the reserve ratio for all banks in the economy, then the money multiplier is
   a. \( 1/(1-R) \).
   b. \( 1/R \).
   c. \( 1/(1+R) \).
   d. \( (1+R)/R \).

   ANS: B   DIF: 1   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Applicative

85. The money multiplier equals
   a. \( 1/R \), where \( R \) represents the quantity of reserves in the economy.
   b. \( 1/R \), where \( R \) represents the reserve ratio for all banks in the economy.
   c. \( 1/(1+R) \), where \( R \) represents the reserve ratio for all banks in the economy.
   d. \( 1/(1+R) \), where \( R \) represents the largest reserve ratio among all banks in the economy.

   ANS: B   DIF: 2   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Applicative

86. If the reserve ratio for all banks is 5 percent, then $1,000 of additional reserves can create up to
   a. $5,500 of new money.
   b. $5,000 of new money.
   c. $4,000 of new money.
   d. None of the above is correct.

   ANS: D   DIF: 1   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Applicative
87. If the reserve ratio for all banks is 5 percent, then $2,500 of additional reserves can create up to
   a. $62,500 of new money.
   b. $50,000 of new money.
   c. $45,600 of new money.
   d. $37,500 of new money.

   ANS: B  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative

88. If the reserve ratio for all banks is 5 percent, then $1,000 of additional reserves can create up to
   a. $200 of new money.
   b. $2,000 of new money.
   c. $20,000 of new money.
   d. None of the above is correct.

   ANS: C  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative

89. If the reserve ratio for all banks is 8 percent, then an additional $1,000 of reserves can increase the money
   supply by as much as
   a. $6,400.
   b. $8,000.
   c. $12,500.
   d. $20,000.

   ANS: C  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative

90. If the reserve ratio for all banks is 10 percent, $1,000 of additional reserves can create up to
   a. $100 of new money.
   b. $1,000 of new money.
   c. $10,000 of new money.
   d. None of the above is correct.

   ANS: C  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative

91. If the reserve ratio for all banks is 8 percent, then $4,500 of additional reserves can create up to
   a. $4,500 of new money.
   b. $48,913 of new money.
   c. $56,250 of new money.
   d. $75,000 of new money.

   ANS: C  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative

92. If the reserve ratio for all banks is 9 percent, then a decrease in reserves of $6,000 can cause the money supply
   to fall by as much as
   a. $60,000.00.
   b. $66,666.67.
   c. $90,900.00.
   d. $100,555.56.

   ANS: B  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Money multiplier
   MSC: Applicative
93. If the reserve ratio for all banks is 12.5 percent, then $2,000 of additional reserves can create up to
   a. $8,000 of new money.
   b. $16,000 of new money.
   c. $32,000 of new money.
   d. None of the above is correct.

   ANS: B   DIF: 1   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Applicative

94. If the reserve ratio for all banks is 12.5 percent, then $1,000 of additional reserves can create up to
   a. $7,000 of new money.
   b. $8,000 of new money.
   c. $11,500 of new money.
   d. $12,500 of new money.

   ANS: B   DIF: 1   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Applicative

95. Suppose the Federal Reserve increases bank reserves and banks lend out some of these reserves, but at some
   point banks still have $5 million more they wish to lend out. If the reserve requirement is 10 percent, how
   much more money can banks create if they lend out the remaining amount?
   a. $55 million
   b. $50 million
   c. $45 million
   d. $40 million

   ANS: B   DIF: 2   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Applicative

96. In the nation of Feutschland, the money supply is $80,000 and reserves are $18,000. Assuming that people
   hold only deposits and no currency, and that banks hold no excess reserves, then the reserve requirement is
   a. 29 percent.
   b. 22.5 percent.
   c. 16 percent.
   d. None of the above is correct.

   ANS: B   DIF: 2   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Analytical

97. In Hugoland, the money supply is $8 million and reserves are $1 million. Assuming that people hold only
   deposits and no currency, and that banks hold no excess reserves, then the reserve requirement is
   a. 14 percent.
   b. 12.5 percent.
   c. 8 percent.
   d. None of the above is correct.

   ANS: B   DIF: 2   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Analytical

98. If the reserve ratio is 100 percent, then a new deposit of $500 into a bank account
   a. eventually increases the money supply by $500.
   b. leaves the size of the money supply unchanged.
   c. eventually decreases the size of the money supply by $500.
   d. None of the above is correct.

   ANS: B   DIF: 2   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Money multiplier
   MSC: Applicative
Scenario 29-1.
The monetary policy of Salidiva is determined by the Salidivian Central Bank. The local currency is the salido. Salidivian banks collectively hold 100 million salidos of required reserves, 25 million salidos of excess reserves, 250 million salidos of Salidivian Treasury Bonds, and their customers hold 1,000 million salidos of deposits. Salidivians prefer to use only demand deposits and so the money supply consists of demand deposits.

99. Refer to Scenario 29-1. Assume that banks desire to continue holding the same ratio of excess reserves to deposits. What is the reserve requirement and what is the reserve ratio?
   a. 2 percent, 8 percent
   b. 8 percent, 10 percent
   c. 10 percent, 12.5 percent
   d. None of the above is correct.

   ANS: C   DIF: 2   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Reserve ratio
   MSC: Applicative

100. Refer to Scenario 29-1. Assuming the only other item Salidivian banks have on their balance sheets is loans, what is the value of existing loans made by Salidivian banks?
   a. 625 million salidos
   b. 875 million salidos
   c. 1,125 million salidos
   d. None of the above is correct.

   ANS: A   DIF: 3   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Reserve ratio
   MSC: Applicative

101. Refer to Scenario 29-1. Suppose the Central Bank of Salidiva loaned the banks of Salidiva 5 million salidos. Suppose also that both the reserve requirement and the percentage of deposits held as excess reserves stay the same. By how much would the money supply of Salidiva change?
   a. 60 million salidos
   b. 50 million salidos
   c. 40 million salidos
   d. None of the above is correct.

   ANS: C   DIF: 3   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Reserve ratio
   MSC: Applicative

102. Refer to Scenario 29-1. Suppose the Central Bank of Salidiva purchases 25 million salidos of Salidivian Treasury Bonds from banks. Suppose also that both the reserve requirement and the percentage of deposits held as excess reserves stay the same. By how much would the money supply of Salidiva change?
   a. 200 million salidos
   b. 150 million salidos
   c. 100 million salidos
   d. None of the above is correct.

   ANS: A   DIF: 3   REF: 29-3
   NAT: Analytic   LOC: Monetary and fiscal policy   TOP: Reserve ratio
   MSC: Applicative
The Monetary Policy of Tazi is controlled by the country’s central bank known as the Bank of Tazi. The local unit of currency is the Taz. Aggregate banking statistics show that collectively the banks of Tazi hold 300 million Tazes of required reserves, 75 million Tazes of excess reserves, have issued 7,500 million Tazes of deposits, and hold 225 million Tazes of Tazian Treasury bonds. Tazians prefer to use only demand deposits and so all money is on deposit at the bank.

103. Refer to Scenario 29-2. Assume that banks desire to continue holding the same ratio of excess reserves to deposits. What is the reserve requirement and the reserve ratio for Tazian Banks?
   a. 5 percent, 8 percent
   b. 4 percent, 8 percent
   c. 4 percent, 5 percent
   d. None of the above is correct.
   ANS: C  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserve ratio
   MSC: Applicative

104. Refer to Scenario 29-2. Assuming the only other thing Tazian banks have on their balance sheets is loans, what is the value of existing loans made by Tazian banks?
   a. 6,900 million Tazes
   b. 7,125 million Tazes
   c. 7,350 million Tazes
   d. None of the above is correct.
   ANS: A  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserve ratio
   MSC: Applicative

105. Refer to Scenario 29-2. Suppose the Bank of Tazi loaned the banks of Tazi 10 million Tazes. Suppose also that both the reserve requirement and the percentage of deposits held as excess reserves stay the same. By how much would the money supply change?
   a. 250 million Tazes
   b. 200 million Tazes
   c. 125 million Tazes
   d. None of the above is correct.
   ANS: B  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserve ratio
   MSC: Applicative

106. Refer to Scenario 29-2. Suppose the Bank of Tazi purchased 50 million Tazes of Tazian Treasury Bonds from the banks. Suppose also that both the reserve requirement and the percentage of deposits held as excess reserves stay the same. By how much does the money supply change?
   a. 625 million Tazes
   b. 1,000 million Tazes
   c. 1,250 million Tazes
   d. None of the above is correct.
   ANS: B  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserve ratio
   MSC: Applicative

107. Refer to Scenario 29-2. Suppose that the Bank of Tazi changes the reserve requirement ratio to 3 percent. Assuming that the banks still want to hold the same percentage of excess reserves what is the value of the money supply after the change in the reserve requirement ratio?
   a. 9,375 million Tazes
   b. 10,000 million Tazes
   c. 12,500 million Tazes
   d. None of the above is correct to the nearest million salidos.
   ANS: A  DIF: 3  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserve ratio
   MSC: Applicative
108. The reserve requirement ratio is 10 percent. Which of the following pairs of changes would both allow a bank to lend out an additional $10,000?
   a. the Fed buys a $10,000 bond from the bank or someone deposits $10,000 in the bank
   b. the Fed sells a $10,000 bond to the bank or the Fed lends the bank $10,000
   c. the Fed buys a $10,000 bond from the bank or the Fed lends the bank $10,000
   d. the Fed sells a $10,000 bond to the bank or someone deposits $10,000 in the bank

   ANS: B  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserves  MSC: Applicative

109. The money supply increases when the Fed
   a. buys bonds. The increase will be larger, the smaller is the reserve ratio.
   b. sells bonds. The increase will be larger, the larger is the reserve ratio.

   ANS: A  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy
   TOP: Money supply | Open-market operations  MSC: Applicative

110. The money supply decreases if the Fed
   a. sells Treasury bonds. The larger the reserve requirement, the larger the decrease will be.
   b. buys Treasury bonds. The smaller the reserve requirement, the larger the decrease will be.

   ANS: B  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy
   TOP: Reserve requirements | Money multiplier  MSC: Applicative

111. The money supply increases when the Fed
   a. lowers the discount rate. The increase will be larger the smaller the reserve ratio is.
   b. raises the discount rate. The increase will be larger the smaller the reserve ratio is.

   ANS: A  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy
   TOP: Money supply | Discount rate  MSC: Applicative

112. If the Fed wanted to increase the money supply, it would make open market
   a. purchases or lower the discount rate.
   b. purchases or raise the discount rate.

   ANS: A  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy
   TOP: Money supply | Open-market operations | Discount rate  MSC: Definitional

113. To increase the money supply, the Fed could
   a. sell government bonds.
   b. increase the discount rate.
   c. decrease the reserve requirement.
   d. None of the above is correct.

   ANS: C  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy
   TOP: Money supply | Reserve requirements  MSC: Definitional
114. To increase the money supply, the Fed could
a. sell government bonds.
   b. decrease the discount rate.
   c. increase the reserve requirement.
   d. None of the above is correct.

ANS: B     DIF: 1     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Money supply | Discount rate     MSC: Definitional

115. To decrease the money supply, the Fed could
a. sell government bonds.
   b. increase the discount rate.
   c. increase the reserve requirement.
   d. All of the above are correct.

ANS: D     DIF: 1     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Money supply

116. Which of the following is not a tool of monetary policy?
   a. open market operations
   b. reserve requirements
   c. changing the discount rate
   d. increasing the government budget deficit

ANS: D     DIF: 1     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy     TOP: Monopoly policy
MSC: Definitional

117. Which of the following lists two things that both increase the money supply?
   a. the Fed buys bonds and lowers the discount rate
   b. the Fed buys bonds and raises the discount rate
   c. the Fed sells bonds and lowers the discount rate
   d. the Fed sells bonds and raises the discount rate

ANS: A     DIF: 2     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy
TOP: Money supply | Open-market operations | Discount rate
MSC: Applicative

118. Which of the following lists two things that both increase the money supply?
   a. lower the discount rate, raise the reserve requirement
   b. lower the discount rate, lower the reserve requirement
   c. raise the discount rate, raise the reserve requirement
   d. raise the discount rate, lower the reserve requirement

ANS: B     DIF: 2     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy
TOP: Money supply | Discount rate | Reserve requirements
MSC: Definitional

119. Which of the following lists two things that both increase the money supply?
   a. raise the discount rate, make open market purchases
   b. raise the discount rate, make open market sales
   c. lower the discount rate, make open market purchases
   d. lower the discount rate, make open market sales

ANS: C     DIF: 2     REF: 29-3
NAT: Analytic     LOC: Monetary and fiscal policy
TOP: Money supply | Discount rate | Open-market operations
MSC: Definitional
120. Which of the following lists two things that both increase the money supply?
   a. make open market purchases, raise the reserve requirement
   b. make open market purchases, lower the reserve requirement
   c. make open market sales, raise the reserve requirement
   d. make open market sales, lower the reserve requirement

   ANS: B     DIF: 2     REF: 29-3
   NAT: Analytic     LOC: Monetary and fiscal policy
   TOP: Money supply | Open-market operations | Reserve requirements
   MSC: Definitional

121. Which of the following lists two things that both decrease the money supply?
   a. lower the discount rate, raise the reserve requirement
   b. lower the discount rate, lower the reserve requirement
   c. raise the discount rate, raise the reserve requirement
   d. raise the discount rate, lower the reserve requirement

   ANS: C     DIF: 2     REF: 29-3
   NAT: Analytic     LOC: Monetary and fiscal policy
   TOP: Money supply | Discount rate | Reserve requirements
   MSC: Definitional

122. Which of the following lists two things that both decrease the money supply?
   a. raise the discount rate, make open market purchases
   b. raise the discount rate, make open market sales
   c. lower the discount rate, make open market purchases
   d. lower the discount rate, make open market sales

   ANS: B     DIF: 2     REF: 29-3
   NAT: Analytic     LOC: Monetary and fiscal policy
   TOP: Money supply | Discount rate | Open-market operations
   MSC: Definitional

123. Which of the following lists two things that both decrease the money supply?
   a. make open market purchases, raise the reserve requirement
   b. make open market purchases, lower the reserve requirement
   c. make open market sales, raise the reserve requirement
   d. make open market sales, lower the reserve requirement

   ANS: C     DIF: 2     REF: 29-3
   NAT: Analytic     LOC: Monetary and fiscal policy
   TOP: Money supply | Open-market operations | Reserve requirements
   MSC: Definitional

124. Which of the following actions would have the combined effect of raising the money supply and raising the money multiplier?
   a. The Fed sells bonds and raises the reserve requirement
   b. The Fed sells bonds and lowers the reserve requirement
   c. The Fed buys bonds and raises the reserve requirement
   d. The Fed buys bonds and lowers the reserve requirement

   ANS: D     DIF: 2     REF: 29-3
   NAT: Analytic     LOC: Monetary and fiscal policy
   TOP: Money supply | Money multiplier
   MSC: Analytical

125. The Fed increases the reserve requirement and makes open market purchases. Which of these by itself will increase the money supply?
   a. neither the increase in the reserve requirement nor the open market purchases
   b. both the increase in the reserve requirement and the open market purchases
   c. only the increase in the reserve requirement
   d. only the open market purchases

   ANS: D     DIF: 2     REF: 29-3
   NAT: Analytic     LOC: Monetary and fiscal policy
   TOP: Reserve requirements | Open-market operations
   MSC: Applicative
126. When the Fed conducts open market purchases, reserves
   a. increase and banks can increase lending.
   b. increase and banks must decrease lending.
   c. decrease and banks can increase lending.
   d. decrease and banks must decrease lending.

   ANS: A    DIF: 2    REF: 29-3
   NAT: Analytic    LOC: Monetary and fiscal policy    TOP: Open-market operations | Reserves    MSC: Interpretive

127. If the Fed sells government bonds to the public, then reserves
   a. increase and the money supply increases.
   b. increase and the money supply decreases.
   c. decrease and the money supply increases.
   d. decrease and the money supply decreases.

   ANS: D    DIF: 2    REF: 29-3
   NAT: Analytic    LOC: Monetary and fiscal policy    TOP: Open-market operations | Reserves    MSC: Analytical

128. If the Fed makes open market purchases of bonds,
   a. the money supply increases by more than the amount of bonds purchased.
   b. the money supply increases by less than the amount of bonds purchased.
   c. the money supply decreases by more than the amount of bonds purchased.
   d. the money supply decreases by less than the amount of bonds purchased.

   ANS: A    DIF: 2    REF: 29-3
   NAT: Analytic    LOC: Monetary and fiscal policy    TOP: Open-market operations | Money supply    MSC: Analytical

129. Reserve requirements are regulations concerning
   a. the amount banks are allowed to borrow from the Fed.
   b. the amount of reserves banks must hold against deposits.
   c. reserves banks must hold based on the number and type of loans they make.
   d. the interest rate at which banks can borrow from the Fed.

   ANS: B    DIF: 1    REF: 29-3
   NAT: Analytic    LOC: Monetary and fiscal policy    TOP: Reserve requirements    MSC: Definitional

130. In a fractional-reserve banking system, an increase in reserve requirements
   a. increases both the money multiplier and the money supply.
   b. decreases both the money multiplier and the money supply.
   c. increases the money multiplier, but decreases the money supply.
   d. decreases the money multiplier, but increases the money supply.

   ANS: B    DIF: 2    REF: 29-3
   NAT: Analytic    LOC: Monetary and fiscal policy    TOP: Fractional-reserve banking | Reserve requirements    MSC: Interpretive

131. In a fractional-reserve banking system, a decrease in reserve requirements
   a. increases both the money multiplier and the money supply.
   b. decreases both the money multiplier and the money supply.
   c. increases the money multiplier, but decreases the money supply.
   d. decreases the money multiplier, but increases the money supply.

   ANS: A    DIF: 2    REF: 29-3
   NAT: Analytic    LOC: Monetary and fiscal policy    TOP: Fractional-reserve banking | Reserve requirements    MSC: Interpretive
132. Other things the same, if reserve requirements are increased, the reserve ratio
   a. increases, the money multiplier increases, and the money supply increases.
   b. increases, the money multiplier decreases, and the money supply decreases.
   c. decreases, the money multiplier decreases, and the money supply increases.
   d. decreases, the money multiplier increases, and the money supply increases.

   ANS: B DIF: 3 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserve requirements
   MSC: Interpretive

133. Other things the same if reserve requirements are decreased, the reserve ratio
   a. decreases, the money multiplier increases, and the money supply decreases.
   b. increases, the money multiplier increases, and the money supply increases.
   c. decreases, the money multiplier increases, and the money supply increases.
   d. increases, the money multiplier increases, and the money supply decreases.

   ANS: C DIF: 3 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserve requirements
   MSC: Interpretive

134. In a fractional-reserve banking system with no excess reserves and no currency holdings, if the central bank
   buys $100 million of bonds,
   a. reserves and the money supply increase by less than $100 million.
   b. reserves increase by $100 million and the money supply increases by $100 million.
   c. reserves increase by $100 million and the money supply increases by more than $100 million.
   d. both reserves and the money supply increase by more than $100 million.

   ANS: C DIF: 2 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Fractional-reserve banking | Open-market operations
   MSC: Applicative

135. If the reserve ratio is 8 percent, banks do not hold excess reserves, and people do not hold currency, then when
   the Fed purchases $20 million of government bonds, bank reserves
   a. increase by $20 million and the money supply eventually increases by $250 million.
   b. decrease by $20 million and the money supply eventually increases by $250 million.
   c. increase by $20 million and the money supply eventually decreases by $250 million.
   d. decrease by $20 million and the money supply eventually decreases by $250 million.

   ANS: A DIF: 3 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Open-market operations | Money multiplier
   MSC: Applicative

136. If the reserve ratio is 15 percent, and banks do not hold excess reserves, and people hold only deposits and no
   currency, then when the Fed sells $65 million of bonds to the public, bank reserves
   a. increase by $65 million and the money supply eventually increases by $266.67 million.
   b. increase by $65 million and the money supply eventually increases by $433.33 million.
   c. decrease by $65 million and the money supply eventually decreases by $266.67 million.
   d. decrease by $65 million and the money supply eventually decreases by $433.33 million.

   ANS: D DIF: 3 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Open-market operations | Money multiplier
   MSC: Applicative

137. If the reserve ratio is 10 percent, banks do not hold excess reserves, and people hold only deposits and no
   currency, when the Fed sells $10 million dollars of bonds to the public, bank reserves
   a. increase by $1 million and the money supply eventually increases by $10 million.
   b. increase by $10 million and the money supply eventually increases by $100 million.
   c. decrease by $1 million and the money supply eventually increases by $10 million.
   d. decrease by $10 million and the money supply eventually decreases by $100 million.

   ANS: D DIF: 3 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Open-market operations | Money multiplier
   MSC: Applicative
138. The interest rate the Fed charges on loans it makes to banks is called
   a. the prime rate.
   b. the federal funds rate.
   c. the discount rate.
   d. the LIBOR.

   ANS: C DIF: 1 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Discount rate
   MSC: Definitional

139. The discount rate is
   a. the interest rate the Fed charges banks.
   b. one divided by the difference between one and the reserve ratio.
   c. the interest rate banks receive on reserve deposits with the Fed.
   d. the interest rate that banks charge on overnight loans to other banks.

   ANS: A DIF: 1 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Discount rate
   MSC: Definitional

140. The discount rate is
   a. the rate at which public banks lend to other public banks.
   b. the rate at which the Fed lends to banks.
   c. the percentage difference between the face value of a Treasury bond and what the Fed pays for it.
   d. the percentage of deposits banks hold as excess reserves.

   ANS: B DIF: 1 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Discount rate
   MSC: Definitional

141. The interest rate that the Fed charges banks that borrow reserves from it is the
   a. federal funds rate.
   b. discount rate.
   c. reserve requirement.
   d. prime rate.

   ANS: B DIF: 1 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Discount rate
   MSC: Definitional

142. If the discount rate is lowered, banks choose to borrow
   a. less from the Fed so reserves increase.
   b. less from the Fed so reserves decrease.
   c. more from the Fed so reserves increase.
   d. more from the Fed so reserves decrease.

   ANS: C DIF: 1 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Discount rate
   MSC: Definitional

143. Other things the same, if the Fed raises the discount rate, then banks choose to borrow
   a. more from the Fed so reserves increase.
   b. more from the Fed so reserves decrease.
   c. less from the Fed so reserves increase.
   d. less from the Fed so reserves decrease.

   ANS: D DIF: 1 REF: 29-3
   NAT: Analytic LOC: Monetary and fiscal policy TOP: Discount rate
   MSC: Definitional
144. When the Fed decreases the discount rate, banks will
   a. borrow more from the Fed and lend more to the public. The money supply increases.
   b. borrow more from the Fed and lend less to the public. The money supply decreases.
   c. borrow less from the Fed and lend more to the public. The money supply increases.
   d. borrow less from the Fed and lend less to the public. The money supply decreases.

ANS: A  DIF:  2  REF:  29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Discount rate
MSC: Interpretive

145. During the stock market crash of October 1987, the Fed
   a. nearly created a financial panic by not acting as a lender of last resort.
   b. nearly created a financial panic by raising the discount rate.
   c. prevented a financial panic by raising reserve requirements.
   d. prevented a financial panic by providing liquidity to the financial system.

ANS: D  DIF:  1  REF:  29-3
NAT: Analytic  LOC: Monetary and fiscal policy
TOP: Stock market | Federal Reserve System  MSC: Definitional

146. The banking system currently has $10 billion of reserves, none of which are excess. People hold only deposits
   and no currency, and the reserve requirement is 10 percent. If the Fed raises the reserve requirement to 20
   percent and at the same time buys $1 billion of bonds, then by how much does the money supply change?
   a. It falls by $45 billion.
   b. It falls by $52 billion.
   c. It falls by $55 billion.
   d. None of the above is correct.

ANS: A  DIF:  3  REF:  29-3
NAT: Analytic  LOC: Monetary and fiscal policy
TOP: Money multiplier | Open-market operations  MSC: Analytical

147. The banking system currently has $100 billion of reserves, none of which are excess. People hold only deposits
   and no currency, and the reserve requirement is 10 percent. If the Fed lowers the reserve requirement to 8 percent
   and at the same time buys $10 billion of bonds, then by how much does the money supply change?
   a. It rises by $225 billion.
   b. It rises by $375 billion.
   c. It rises by $675 billion.
   d. None of the above is correct.

ANS: B  DIF:  3  REF:  29-3
NAT: Analytic  LOC: Monetary and fiscal policy
TOP: Money multiplier | Open-market operations  MSC: Analytical

148. The banking system currently has $50 billion of reserves, none of which are excess. People hold only deposits
   and no currency, and the reserve requirement is 10 percent. If the Fed raises the reserve requirement to 12.5
   percent and at the same time sells $10 billion of bonds, then by how much does the money supply change?
   a. It falls by $20 billion.
   b. It falls by $110 billion.
   c. It falls by $180 billion.
   d. None of the above is correct.

ANS: C  DIF:  3  REF:  29-3
NAT: Analytic  LOC: Monetary and fiscal policy
TOP: Money multiplier | Open-market operations  MSC: Analytical
The banking system currently has $200 billion of reserves, none of which are excess. People hold only deposits and no currency, and the reserve requirement is 4 percent. If the Fed raises the reserve requirement to 10 percent and at the same time buys $50 billion of bonds, then by how much does the money supply change?

a. It rises by $600 billion.
b. It rises by $125 billion.
c. It falls by $2,500 billion.
d. None of the above is correct.

ANS: C  DIF: 3  REF: 29-3

If the public decides to hold more currency and fewer deposits in banks, bank reserves

a. decrease and the money supply eventually decreases.
b. decrease but the money supply does not change.
c. increase and the money supply eventually increases.
d. increase but the money supply does not change.

ANS: A  DIF: 2  REF: 29-3

If the public decides to hold less currency and more deposits in banks, bank reserves

a. decrease and the money supply eventually decreases.
b. decrease but the money supply does not change.
c. increase and the money supply eventually increases.
d. increase but the money supply does not change.

ANS: C  DIF: 2  REF: 29-3

Suppose that in a country people gain more confidence in the banking system and so hold relatively less currency and more deposits. As a result, bank reserves will

a. decrease and the money supply will eventually decrease.
b. decrease and the money supply will eventually increase.
c. increase and the money supply will eventually decrease.
d. increase and the money supply will eventually increase.

ANS: D  DIF: 2  REF: 29-3

During recessions, banks typically choose to hold more excess reserves relative to their deposits. This action

a. increases the money multiplier and increases the money supply.
b. decreases the money multiplier and decreases the money supply.
c. does not change the money multiplier, but increases the money supply.
d. does not change the money multiplier, but decreases the money supply.

ANS: B  DIF: 2  REF: 29-3
155. Suppose banks decide to hold more excess reserves relative to deposits. Other things the same, this action will cause the
   a. money supply to fall. To reduce the impact of this the Fed could sell Treasury bonds.
   b. money supply to fall. To reduce the impact of this the Fed could buy Treasury bonds.
   c. money supply to rise. To reduce the impact of this the Fed could sell Treasury bonds.
   d. money supply to rise. To reduce the impact of this the Fed could buy Treasury bonds.

ANS: B
DIF: 3
REF: 29-3

NAT: Analytic
LOC: Monetary and fiscal policy
TOP: Reserves | Money multiplier
MSC: Applicative

156. Suppose banks decide to hold fewer excess reserves relative to deposits. Other things the same, this action will cause the
   a. money supply to fall. To reduce the impact of this the Fed could sell Treasury bonds.
   b. money supply to fall. To reduce the impact of this the Fed could buy Treasury bonds.
   c. money supply to rise. To reduce the impact of this the Fed could sell Treasury bonds.
   d. money supply to rise. To reduce the impact of this the Fed could buy Treasury bonds.

ANS: C
DIF: 3
REF: 29-3

NAT: Analytic
LOC: Monetary and fiscal policy
TOP: Reserves | Money multiplier
MSC: Applicative

157. Suppose banks decide to hold more excess reserves relative to deposits. Other things the same, this action will cause the
   a. money supply to fall. To reduce the impact of this the Fed could lower the discount rate.
   b. money supply to fall. To reduce the impact of this the Fed could raise the discount rate.
   c. money supply to rise. To reduce the impact of this the Fed could lower the discount rate.
   d. money supply to rise. To reduce the impact of this the Fed could raise the discount rate.

ANS: A
DIF: 3
REF: 29-3

NAT: Analytic
LOC: Monetary and fiscal policy
TOP: Reserves | Money multiplier
MSC: Applicative

158. If people decide to hold more currency relative to deposits, the money supply
   a. falls. The larger the reserve ratio is, the more the money supply falls.
   b. falls. The larger the reserve ratio is, the less the money supply falls.
   c. rises. The larger the reserve ratio is, the more the money supply rises.
   d. rises. The larger the reserve ratio is, the less the money supply rises.

ANS: B
DIF: 3
REF: 29-3

NAT: Analytic
LOC: Monetary and fiscal policy
TOP: Currency | Money multiplier
MSC: Applicative

159. If people decide to hold more currency relative to deposits, the money supply
   a. falls. The Fed could lessen the impact of this by buying Treasury bonds.
   b. falls. The Fed could lessen the impact of this by selling Treasury bonds.
   c. rises. The Fed could lessen the impact of this by buying Treasury bonds.
   d. rises. The Fed could lessen the impact of this by selling Treasury bonds.

ANS: A
DIF: 3
REF: 29-3

NAT: Analytic
LOC: Monetary and fiscal policy
TOP: Currency | Money multiplier
MSC: Applicative

160. If people decide to hold less currency relative to deposits, the money supply
   a. falls. The Fed could lessen the impact of this by buying Treasury bonds.
   b. falls. The Fed could lessen the impact of this by selling Treasury bonds.
   c. rises. The Fed could lessen the impact of this by buying Treasury bonds.
   d. rises. The Fed could lessen the impact of this by selling Treasury bonds.

ANS: D
DIF: 3
REF: 29-3

NAT: Analytic
LOC: Monetary and fiscal policy
TOP: Currency | Money multiplier
MSC: Applicative
161. Which of the following is correct?
   a. The Fed can control the money supply precisely.
   b. The amount of money in the economy does not depend on the behavior of depositors.
   c. The amount of money in the economy depends in part on the behavior of banks.
   d. None of the above is correct.

   ANS: C
   NAT: Analytic
   LOC: Monetary and fiscal policy
   TOP: Money multiplier
   MSC: Definitional

162. During wars the public tends to hold relatively more currency and relatively fewer deposits. This decision makes reserves
   a. and the money supply increase.
   b. and the money supply decrease.
   c. increase, but leaves the money supply unchanged.
   d. decrease, but leaves the money supply unchanged.

   ANS: B
   NAT: Analytic
   LOC: Monetary and fiscal policy
   TOP: Currency | Money multiplier
   MSC: Applicative

163. In December 1999 people feared that there might be computer problems at banks as the century changed. Consequently, people wanted to hold relatively more in currency and relatively less in deposits. In anticipation banks raised their reserve ratios to have enough cash on hand to meet depositors’ demands. These actions by the public
   a. would increase the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have sold bonds.
   b. would increase the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have bought bonds.
   c. would reduce the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have sold bonds.
   d. would reduce the multiplier. If the Fed wanted to offset the effect of this on the size of the money supply, it could have bought bonds.

   ANS: D
   NAT: Analytic
   LOC: Monetary and fiscal policy
   TOP: Money multiplier | Open-market operations
   MSC: Analytical

164. In the 19th century, when crop failures often led to bank runs, banks would make relatively fewer loans and hold relatively more excess reserves. By itself, these actions by the banks should have
   a. increased the money multiplier and the money supply.
   b. decreased the money multiplier and increased the money supply.
   c. increased the money multiplier and decreased the money supply.
   d. decreased both the money multiplier and the money supply.

   ANS: D
   NAT: Analytic
   LOC: Monetary and fiscal policy
   TOP: Banks | Money supply
   MSC: Applicative

165. During a bank run, depositors decide to hold more currency relative to deposits and banks decide to hold more excess reserves relative to deposits.
   a. Both the decision to hold relatively more currency and the decision to hold relatively more excess reserves would make the money supply increase.
   b. Both the decision to hold relatively more currency and the decision to hold relatively more excess reserves would make the money supply decrease.
   c. The decision to hold relatively more currency would make the money supply increase. The decision to hold relatively more excess reserves would make the money supply increase.
   d. The decision to hold relatively more currency would make the money supply increase. The decision to hold relatively more excess reserves would make the money supply decrease.

   ANS: B
   NAT: Analytic
   LOC: Monetary and fiscal policy
   TOP: Banks | Money supply
   MSC: Applicative
166. The money supply decreases if
   a. households decide to hold relatively more currency and relatively fewer deposits and banks decide to hold relatively more excess reserves and make fewer loans.
   b. households decide to hold relatively more currency and relatively fewer deposits and banks decide to hold relatively fewer excess reserves and make more loans.
   c. households decide to hold relatively less currency and relatively more deposits and banks decide to hold relatively more excess reserves and make fewer loans.
   d. households decide to hold relatively less currency and relatively more deposits and banks decide to hold relatively less excess reserves and make more loans.

ANS: A          DIF: 2        REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy
TOP: Currency | Reserves | Money supply                 MSC: Analytical

167. Bank runs
   a. will affect neither the money supply nor the money multiplier.
   b. are only a problem for insolvent banks.
   c. can be neither prevented nor mitigated by the Federal Reserve.
   d. are a problem because banks only hold a fraction of deposits as reserves.

ANS: D          DIF: 1        REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy
TOP: Banks | Reserves                 MSC: Definitional

168. The Fed can directly protect a bank during a bank run by
   a. increasing reserve requirements.
   b. selling government bonds to the bank.
   c. lending reserves to the bank.
   d. doing any of the above.

ANS: C          DIF: 1        REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy
TOP: Banks | Federal Reserve System  MSC: Definitional

169. During the Great Depression in the early 1930s,
   a. bank runs closed many banks.
   b. the money supply rose sharply.
   c. the Fed decreased reserve requirements.
   d. both a and b are correct.

ANS: A          DIF: 1        REF: 29-3
NAT: Analytic  LOC: The role of money       TOP: Great Depression
MSC: Definitional

170. Speaking at a conference in 2002 as a member of the Board of Governors, Ben Bernanke
   a. acknowledged that the Fed had been responsible for the Great Depression of the 1930s.
   b. asserted that the Fed was in no way responsible for the Great Depression of the 1930s.
   c. asserted that the Fed should abandon, in the not-too-distant future, its reliance on open-market operations for control of the money supply.
   d. asserted that the Fed should abandon, in the not-too-distant future, its fixation on the federal funds rate.

ANS: A          DIF: 2        REF: 29-3
NAT: Analytic  LOC: The role of money       TOP: Great Depression
MSC: Definitional
171. In early 2008, the Federal Reserve
   a. announced that it was temporarily suspending its practice of making loans available to banks.
   b. declared that the credit crisis, which had recently resulted in severe financial-market problems, had come to an end.
   c. took actions to prevent the imminent bankruptcy of JP Morgan Chase, a bank.
   d. took actions to prevent the imminent bankruptcy of Bear Stearns, an investment bank.

ANS: D  DIF: 2  REF: 29-3
NAT: Analytic  LOC: The role of money  TOP: Great Depression  MSC: Definitional

172. Today, bank runs are
   a. uncommon because of the high reserve requirement.
   b. uncommon because of FDIC deposit insurance.
   c. common because of the low reserve requirement.
   d. common because the FDIC is nearly bankrupt.

ANS: B  DIF: 1  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Banks | Federal Deposit Insurance Corporation  MSC: Definitional

173. The Federal Deposit Insurance Corporation
   a. protects depositors in the event of bank failures.
   b. has become insolvent in recent years due to a large number of bank failures.
   c. is part of the Federal Reserve System.
   d. in practice has seldom been of much use.

ANS: A  DIF: 1  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal Deposit Insurance Corporation  MSC: Definitional

174. The federal funds rate is the
   a. percentage of face value that the Federal Reserve is willing to pay for Treasury Securities.
   b. percentage of deposits that banks must hold as reserves.
   c. interest rate at which the Federal Reserve makes short-term loans to banks.
   d. interest rate at which banks lend reserves to each other overnight.

ANS: D  DIF: 1  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal funds rate  MSC: Definitional

175. The federal funds rate is the interest rate
   a. the Federal Reserve charges for loans it makes to the federal government.
   b. the Federal Reserve charges banks for short-term loans.
   c. banks charge each other for short-term loans of reserves.
   d. on newly issued one-year Treasury bonds.

ANS: C  DIF: 1  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal funds rate  MSC: Definitional

176. In recent years the Federal Open Market Committee has focused on a target for
   a. M1 growth.
   b. the federal funds rate.
   c. the number of Treasury Securities issued by the federal government.
   d. total reserves of banks.

ANS: B  DIF: 1  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Federal funds rate  MSC: Definitional
177. Imagine that the federal funds rate was below the level the Federal Reserve had targeted. To move the rate back towards it’s target the Federal Reserve could
   a. buy bonds. This buying would reduce reserves.
   b. buy bonds. This buying would increase reserves.
   c. sell bonds. This selling would reduce reserves.
   d. sell bonds. This selling would increase reserves.

ANS: C   DIF: 3   REF: 29-3
NAT: Analytic   LOC: Monetary and fiscal policy
TOP: Federal funds rate | Open-market operations   MSC: Analytical

178. Imagine that the federal funds rate was above the level the Federal Reserve had targeted. To move the rate back towards it’s target the Federal Reserve could
   a. buy bonds. This buying would reduce reserves.
   b. buy bonds. This buying would increase reserves.
   c. sell bonds. This selling would reduce reserves.
   d. sell bonds. This selling would increase reserves.

ANS: B   DIF: 3   REF: 29-3
NAT: Analytic   LOC: Monetary and fiscal policy
TOP: Federal funds rate | Open-market operations   MSC: Analytical

179. Imagine that the federal funds rate was below the level the Federal Reserve had targeted. To move the rate back towards it’s target the Federal Reserve could
   a. buy bonds. This buying would increase the money supply.
   b. buy bonds. This buying would reduce the money supply.
   c. sell bonds. This selling would increase the money supply.
   d. sell bonds. This selling would reduce the money supply.

ANS: D   DIF: 3   REF: 29-3
NAT: Analytic   LOC: Monetary and fiscal policy
TOP: Federal funds rate | Open-market operations   MSC: Analytical

180. Imagine that the federal funds rate was above the level the Federal Reserve had targeted. To move the rate back towards it’s target the Federal Reserve could
   a. buy bonds. This buying would increase the money supply.
   b. buy bonds. This buying would reduce the money supply.
   c. sell bonds. This selling would increase the money supply.
   d. sell bonds. This selling would reduce the money supply.

ANS: A   DIF: 3   REF: 29-3
NAT: Analytic   LOC: Monetary and fiscal policy
TOP: Federal funds rate | Open-market operations   MSC: Analytical

181. An increase in the money supply might indicate that the Fed had
   a. purchased bonds in an attempt to increase the federal funds rate.
   b. purchased bonds in an attempt to reduce the federal funds rate.
   c. sold bonds in an attempt to increase the federal funds rate.
   d. sold bonds in an attempt to reduce the federal funds rate.

ANS: B   DIF: 2   REF: 29-3
NAT: Analytic   LOC: Monetary and fiscal policy
TOP: Money supply | Federal funds rate   MSC: Analytical

182. A decrease in the money supply might indicate that the Fed had
   a. purchased bonds in an attempt to increase the federal funds rate.
   b. purchased bonds in an attempt to reduce the federal funds rate.
   c. sold bonds in an attempt to increase the federal funds rate.
   d. sold bonds in an attempt to reduce the federal funds rate.

ANS: C   DIF: 2   REF: 29-3
NAT: Analytic   LOC: Monetary and fiscal policy
TOP: Money supply | Federal funds rate   MSC: Analytical
183. When the Federal Reserve conducts open-market operations to increase the money supply, it
   a. redeems Federal Reserve notes.
   b. buys government bonds from the public.
   c. raises the discount rate.
   d. decreases its lending to member banks.

   ANS: B  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
   MSC: Definitional

184. When the Fed conducts open-market purchases,
   a. it buys Treasury securities, which increases the money supply.
   b. it buys Treasury securities, which decreases the money supply.
   c. it borrows money from member banks, which increases the money supply.
   d. it lends money to member banks, which decreases the money supply.

   ANS: A  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
   MSC: Definitional

185. When the Fed conducts open-market sales,
   a. it sells Treasury securities, which increases the money supply.
   b. it sells Treasury securities, which decreases the money supply.
   c. it borrows from member banks, which increases the money supply.
   d. it lends money to member banks, which decreases the money supply.

   ANS: B  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
   MSC: Definitional

186. When the Fed conducts open-market purchases,
   a. it buys Treasury securities, which increases the money supply.
   b. it buys Treasury securities, which decreases the money supply.
   c. banks buy Treasury securities from Fed, which increases the money supply.
   d. banks buy Treasury securities from the Fed, which decreases the money supply.

   ANS: A  DIF: 1  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
   MSC: Definitional

187. The Fed can increase the money supply by conducting open-market
   a. sales or by raising the discount rate.
   b. sales or by lowering the discount rate.
   c. purchases or by raising the discount rate.
   d. purchases or by lowering the discount rate.

   ANS: D  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
   MSC: Definitional

188. The Fed can decrease the money supply by conducting open market
   a. sales or by raising the discount rate.
   b. sales or by lowering the discount rate.
   c. purchases or by raising the discount rate.
   d. purchases or by lowering the discount rate.

   ANS: A  DIF: 2  REF: 29-3
   NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
   MSC: Definitional
189. In 1991, the Federal Reserve lowered the reserve requirement ratio from 12 percent to 10 percent. Other things the same this should have
   a. increased both the money multiplier and the money supply.
   b. decreased both the money multiplier and the money supply.
   c. increased the money multiplier and decreased the money supply.
   d. decreased the money multiplier and increased the money supply.

ANS: A  DIF: 2  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Reserve requirements
MSC: Interpretive

190. The Fed’s primary tool to change the money supply is
   a. changing the discount rate.
   b. changing the reserve requirement.
   c. conducting open market operations.
   d. redeeming Federal Reserve notes.

ANS: C  DIF: 1  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Monetary policy
MSC: Definitional

191. The Fed can increase the price level by conducting open-market
   a. sales and raising the discount rate.
   b. sales and lowering the discount rate.
   c. purchases and raising the discount rate.
   d. purchases and lowering the discount rate.

ANS: D  DIF: 3  REF: 29-3
NAT: Analytic  LOC: Monetary and fiscal policy  TOP: Open-market operations
MSC: Definitional