

** Review **

For Test 3

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the following leads to an increase in the interest rate? 1) _____
 A) a decrease in the discount rate B) a sale of government securities by the Fed
 C) a decrease in nominal aggregate output D) a decrease in the price level

- 2) If the Fed has a strong preference for stable prices relative to output, it responds to a price _____ 2) _____
 with a _____ increase in the interest rate.
 A) decrease; large B) increase; large C) increase; small D) decrease; small

- 3) Which of the following would cause the short-run aggregate supply curve to shift to the right? 3) _____
 A) increases in government regulation B) higher energy prices
 C) retired workers reentering the labor force D) an increase in taxes

- 4) The Board of governors of the Fed 4) _____
 A) are appointed by the House of Representatives.
 B) is headquartered in Washington, D.C.
 C) has 12 members.
 D) have a 7-year term.

- 5) Betty won \$500 in a poker tournament. She deposits her \$500 winnings into a money market fund so 5) _____
 that she can use the money next year to help her pay for a trip to Las Vegas. This is an example of
 money serving as a(n)
 A) medium of exchange. B) investment good.
 C) unit of account. D) store of value.

- 6) The Federal Open Market Committee (FOMC) directs the Open Market Desk to 6) _____
 A) determine the discount rate. B) determine the required reserve ratio.
 C) buy or sell government securities. D) determine the federal funds rate.

Refer to the information provided in Table 10.2 below to answer the questions that follow.

Table 10.2

First Commercial Bank			
	Assets	Liabilities + Net Worth	
Reserves:	\$800,000	\$2 million	Deposits
Required	\$200,000	\$500,000	Net Worth
Excess	—		
Loans	—		
Total	\$2.5 million	\$2.5 million	Total

- 7) Refer to Table 10.2. The required reserve ratio 7) _____
 A) is 5%.
 B) is 10%.
 C) is 20%.
 D) cannot be determined from the given information.

- 8) Refer to Table 10.2. First Commercial Bank's excess reserves equal _____
 A) \$200,000. B) \$600,000. C) \$1,000,000. D) \$1,500,000.
- 9) Refer to Table 10.2. First Commercial Bank's total loans equal _____
 A) \$1,000,000. B) \$1,700,000. C) \$2,500,000. D) \$5,000,000.
- 10) The aggregate demand curve shows a _____ relationship between _____ and aggregate output _____.
 A) negative; the price level; demanded B) positive; the price level; demanded
 C) positive; the interest rate; demanded D) negative; the price level; supplied
- 11) For an economy to experience both a recession and inflation at the same time, _____
 A) the aggregate demand curve must shift to the right.
 B) the aggregate supply curve must shift to the right.
 C) the aggregate demand curve must shift to the left.
 D) the aggregate supply curve must shift to the left.
- 12) The aggregate demand curve would shift to the left if _____
 A) the money supply were increased. B) government spending were increased.
 C) the cost of energy were to decrease. D) net taxes were increased.
- 13) If interest rates increase to a very high level, people will most likely hold _____
 A) less bonds and more cash. B) more bonds and less cash.
 C) more bonds and more cash. D) less bonds and less cash.

Refer to the information provided in Figure 12.1 below to answer the questions that follow.

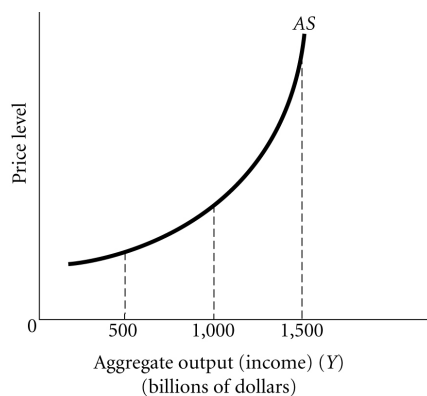


Figure 12.1

- 14) Refer to Figure 12.1. Between the output levels of \$500 billion and \$1,000 billion, the relationship between the price level and output is _____
 A) indeterminate. B) negative. C) constant. D) positive.

- 15) Refer to Figure 12.1. This economy reaches capacity at _____
- A) \$500 billion.
 - B) \$1,000 billion.
 - C) \$1,500 billion.
 - D) an output level that is indeterminate from this information because aggregate demand is not given.

Refer to the information provided in Figure 11.3 below to answer the questions that follow.

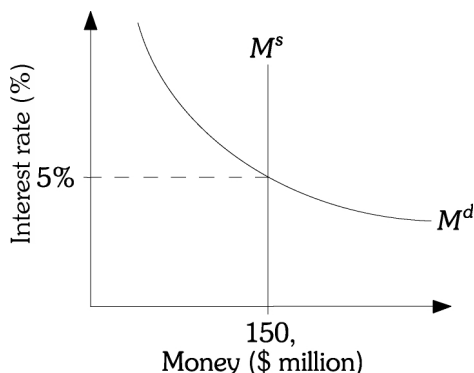


Figure 11.3

- 16) Refer to Figure 11.3. A decrease in nominal aggregate output, *ceteris paribus*, will likely _____
- A) decrease both the equilibrium interest rate and equilibrium money holdings.
 - B) increase the equilibrium interest rate and decrease equilibrium money holdings.
 - C) decrease the equilibrium interest rate without changing equilibrium money holdings.
 - D) increase the equilibrium interest rate without changing equilibrium money holdings.
- 17) Refer to Figure 11.3. At an interest rate of 6%, there is a _____
- A) surplus of money and the interest rate will rise.
 - B) surplus of money and the interest rate will decline.
 - C) shortage of money and the interest rate will rise.
 - D) shortage of money and the interest rate will decline.
- 18) A sudden increase in the price of oil causes a _____ inflation and _____ output.
- A) cost-push; higher
 - B) demand-pull; lower
 - C) demand-pull; higher
 - D) cost-push; lower
- 19) An earthquake destroyed 50% of the Moldovian manufacturing base. The Moldovian government decided to use a contractionary fiscal policy to counter the effects of the earthquake on the economy. The use of the contractionary fiscal policy would have caused _____
- A) the price level to be lower and the output level to be higher than they would have been without the policy action.
 - B) both the price level and the output level to be higher than they would have been without the policy action.
 - C) the price level to be higher and the output level to be lower than they would have been without the policy action.
 - D) both the price level and output level to be lower than what they would have been without the policy action.

20) Aggregate demand increases if

A) the Fed raises the discount rate.

B) the Fed sells government bonds.

C) the government increases spending.

D) the government increases taxes.

20) _____

Refer to the information provided in Figure 11.5 below to answer the questions that follow.

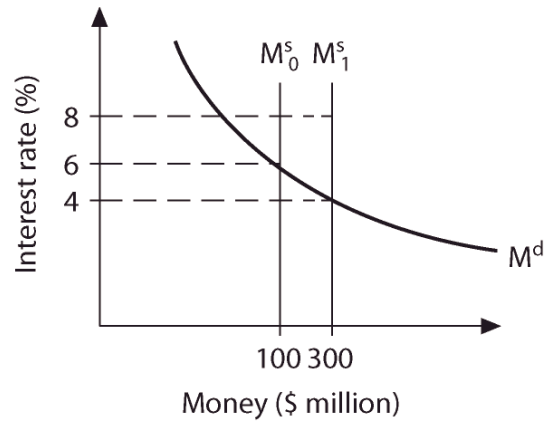


Figure 11.5

21) Refer to Figure 11.5. The money supply curve will shift from M_1^S to M_0^S if

21) _____

A) the equilibrium level of output increases.

B) the Fed increases the reserve requirement.

C) the Fed buys U.S. government securities in the open market.

D) the Fed decreases the discount rate.

22) Refer to Figure 11.5. The money supply curve will shift from M_0^S to M_1^S if

22) _____

A) the Fed increases the discount rate.

B) the equilibrium level of output increases.

C) the Fed buys U.S. government securities in the open market.

D) the Fed increases the reserve requirement.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

23) If the aggregate supply curve is vertical in the long-run, then neither monetary nor fiscal policy will affect aggregate output in the long-run.

23) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Refer to the information provided in Figure 11.4 below to answer the questions that follow.

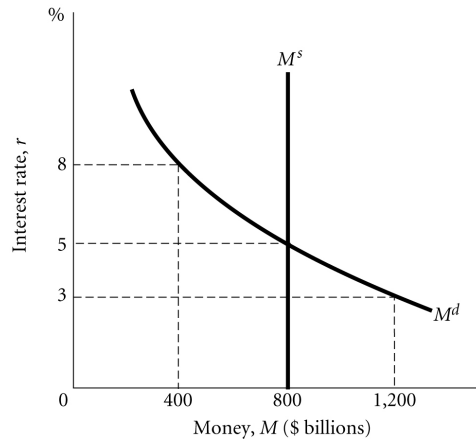


Figure 11.4

- 24) Refer to Figure 11.4. At an interest rate of 5%, firms and households 24) _____
 A) will attempt to reduce their holdings of money by buying bonds.
 B) are satisfied with the amount of money they are holding.
 C) will attempt to increase both their holdings of money and their holdings of bonds.
 D) will attempt to increase their holdings of money by selling bonds.
- 25) Refer to Figure 11.4. At an interest rate of 3%, there is 25) _____
 A) an excess supply of money of \$800 billion.
 B) an excess demand for money of \$800 billion.
 C) an excess supply of money of \$400 billion.
 D) an excess demand for money of \$400 billion.
- 26) Refer to Figure 11.4. At an interest rate of 8%, there is 26) _____
 A) an excess demand for money of \$400 billion.
 B) an excess demand for money of \$800 billion.
 C) an excess supply of money of \$800 billion.
 D) an excess supply of money of \$400 billion.
- 27) An economic condition characterized by high unemployment and excessive inflation is called 27) _____
 A) expansionary growth. B) depression.
 C) stagflation. D) recessionary downturn.
- 28) An increase in the discount rate and an increase in the level of nominal aggregate output will have what effect on the equilibrium interest rate? 28) _____
 A) a decrease in the interest rate B) an indeterminate effect on the interest rate
 C) an increase in the interest rate D) no effect on the interest rate
- 29) Saving account balances are included in 29) _____
 A) M1. B) M2.
 C) neither M1 nor M2. D) both M1 and M2.

- 30) If the quantity of money demanded is greater than the quantity of money supplied, then the interest rate will _____
- A) remain constant.
 - B) fall.
 - C) rise.
 - D) change in an uncertain direction.

Refer to the information provided in Figure 13.1 below to answer the questions that follow.

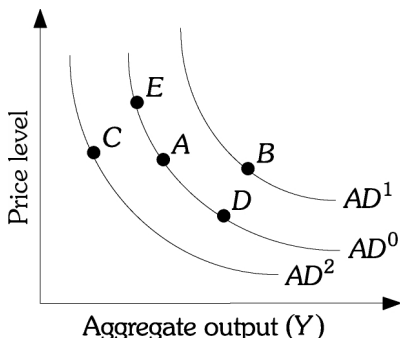


Figure 13.1

- 31) Refer to Figure 13.1. Suppose the economy is at Point A, an decrease in government purchases can cause a movement to Point _____
- A) E.
 - B) B.
 - C) C.
 - D) D.
- 32) Refer to Figure 13.1. Suppose the economy is at Point A, an increase in the price level can cause a movement to Point _____
- A) E.
 - B) B.
 - C) C.
 - D) D.
- 33) Transaction money is _____
- A) M1.
 - B) M2.
 - C) M3.
 - D) M4.

Refer to the information provided in Table 10.1 below to answer the questions that follow.

Table 10.1

First Charter Bank			
Assets		Liabilities	
Reserves	—	\$800	Deposits
Loans	—	\$400	Net Worth
Total	—	\$1,200	Total

- 34) Refer to Table 10.1. First Charter Bank's total assets are _____
- A) \$400.
 - B) \$800.
 - C) \$1,200.
 - D) \$2,400.
- 35) Refer to Table 10.1. The required reserve ratio is 25%. If the First Charter Bank is meeting its reserve requirement and has no excess reserves, its reserves equal _____
- A) \$100.
 - B) \$200.
 - C) \$300.
 - D) \$600.
- 36) Refer to Table 10.1. The required reserve ratio is 25%. If the First Charter Bank is meeting its reserve requirement and has no excess reserves, its loans equal _____
- A) \$1,800.
 - B) \$1,000.
 - C) \$900.
 - D) \$600.

- 37) Which of the following pairs of events will definitely lead to an increase in the equilibrium interest rate? 37) _____
- A) a decrease in the discount rate and an increase in the level of nominal aggregate output
 - B) an increase in the required reserve ratio and a decrease in the level of nominal aggregate output
 - C) the purchase of government securities by the Federal Reserve and a decrease in nominal aggregate output
 - D) the sale of government securities by the Federal Reserve and an increase in nominal aggregate output

- 38) The Federal Reserve System consists of _____ Federal Reserve Banks. 38) _____
- A) 8
 - B) 10
 - C) 12
 - D) 14

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 39) The President of the NY Federal Reserve Bank is always a member of the Federal Open Market Committee. 39) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 40) The aggregate demand curve shows that, *ceteris paribus*, 40) _____
- A) at higher price levels, total quantity of output demanded is higher.
 - B) at lower price levels, total quantity of output demanded is higher.
 - C) at higher price levels, total quantity of output supplied is lower.
 - D) at lower price levels, total quantity of output supplied is lower.

- 41) When you pay \$8 for salad you ordered for lunch, you are using money as a(n) 41) _____
- A) investment good.
 - B) store of value.
 - C) unit of account.
 - D) medium of exchange.

- 42) Denny's lists the price of a Grand Slam Breakfast at \$4.99 a plate. Listing the price on the menu is an example of money serving as a(n) 42) _____
- A) medium of exchange.
 - B) investment good.
 - C) unit of account.
 - D) store of value.

- 43) Which of the following sequence of events follows an open market purchase by the Fed? 43) _____
- A) $r \uparrow \Rightarrow I \downarrow \Rightarrow AE \downarrow \Rightarrow Y \downarrow$
 - B) $r \downarrow \Rightarrow I \uparrow \Rightarrow AE \uparrow \Rightarrow Y \uparrow$
 - C) $r \downarrow \Rightarrow I \downarrow \Rightarrow AE \downarrow \Rightarrow Y \downarrow$
 - D) $r \uparrow \Rightarrow I \uparrow \Rightarrow AE \downarrow \Rightarrow Y \uparrow$

- 44) When the AD curve is vertical, 44) _____
- A) fiscal policy can be used to increase output.
 - B) monetary policy can be used to increase output.
 - C) both fiscal policy and monetary policy can be used to increase output.
 - D) neither fiscal policy nor monetary policy can be used to increase output.

Refer to the information provided in Figure 11.1 below to answer the questions that follow.

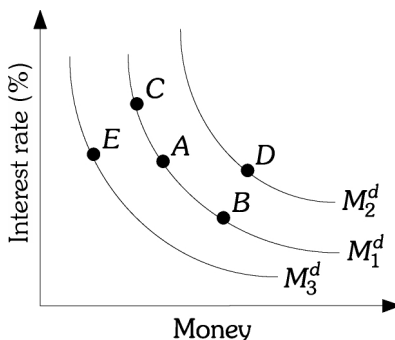


Figure 11.1

- 45) Refer to Figure 11.1. The money demand curve will shift from M_2^d to M_1^d if 45) _____
- A) the price level increases. B) interest rates fall.
C) nominal output decreases. D) interest rates rise.
- 46) Refer to Figure 11.1. A movement from Point D to Point A can be caused by 46) _____
- A) a decrease in nominal aggregate output. B) a decrease in the interest rate.
C) an increase in the interest rate. D) an increase in income.
- 47) Refer to Figure 11.1. A movement from Point B to Point A can be caused by 47) _____
- A) an increase in the price level. B) a decrease in income.
C) a decrease in the interest rate. D) an increase in the interest rate.
- 48) An open-market purchase of securities by the Fed results in _____ in reserves and _____ in the 48) _____
supply of money.
- A) a decrease; a decrease B) a decrease; an increase
C) an increase; an increase D) an increase; a decrease
- 49) An increase in the interest rate will 49) _____
- A) have no impact on the optimal money balance.
B) lower the optimal money balance.
C) either increase or decrease the optimal money balance depending on the level of current household wealth.
D) increase the optimal money balance.
- 50) Money is 50) _____
- A) the same as income.
B) anything that is generally accepted as a medium of exchange.
C) backed by gold in Fort Knox.
D) the value of all coins and currency in circulation at any time.
- 51) Which of the following sequence of events follows a rise in the discount rate? 51) _____
- A) $r \downarrow \Rightarrow I \downarrow \Rightarrow AE \downarrow \Rightarrow Y \uparrow$ B) $r \downarrow \Rightarrow I \uparrow \Rightarrow AE \uparrow \Rightarrow Y \uparrow$
C) $r \uparrow \Rightarrow I \downarrow \Rightarrow AE \downarrow \Rightarrow Y \downarrow$ D) $r \uparrow \Rightarrow I \uparrow \Rightarrow AE \uparrow \Rightarrow Y \uparrow$

- 52) The Fed has tended not to use changes in the reserve requirement as a means of controlling the money supply because 52) _____
- A) a change in the reserve requirement has only a very small impact on the money supply.
 - B) it is a crude monetary policy tool because a change in the requirement does not affect banks until about two weeks after the change is implemented.
 - C) only banks that are members of the Fed are subject to reserve requirements, and most banks do not belong to the Fed.
 - D) it takes a long time for the Congress to approve a change in the reserve requirement.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 53) When interest rates fall, bond values rise. 53) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 54) The best instrument for controlling week-to-week changes in the money supply is 54) _____
- A) open-market operations.
 - B) the discount rate.
 - C) the required reserve ratio.
 - D) moral suasion.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 55) If the *AD* curve is relatively flat, the Fed is willing to accept large changes in output to keep the price level stable. 55) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 56) A(n) _____ in inflationary expectations that causes firms to decrease their prices shifts the aggregate supply curve to the _____. 56) _____
- A) decrease; left
 - B) increase; right
 - C) decrease; right
 - D) increase; left

- 57) When the economy is producing at full capacity, the aggregate supply curve becomes 57) _____
- A) vertical.
 - B) horizontal.
 - C) downward sloping.
 - D) upward sloping.

- 58) A decrease in the required reserve ratio 58) _____
- A) will not change the money supply.
 - B) will decrease the discount rate.
 - C) will decrease the money supply.
 - D) will increase the money supply.

- 59) When the aggregate supply curve is vertical, which of the following is NOT true? 59) _____
- A) The economy is expanding quickly.
 - B) The economy is producing the maximum sustainable level of output.
 - C) Any increase in the price level will not cause an increase in aggregate output.
 - D) The economy is at capacity.

- 60) The speculative demand for money is 60) _____
- A) positively related to interest rate.
 - B) negatively related to income.
 - C) positively related to income.
 - D) negatively related to interest rate.

- 61) Traveler's checks are 61) _____
- A) included in M1 and M2.
 - B) not money.
 - C) not included in M2.
 - D) not included in M1.

- 62) After World War II, cigarettes were used as money in Germany. This is an example of 62) _____
A) legal money. B) commodity money.
C) fiat money. D) token money.
- 63) The price of bonds and the interest rate are 63) _____
A) sometimes positively related and other times negatively related, depending on the bond payments.
B) negatively related.
C) not related.
D) positively related.
- 64) Net worth is 64) _____
A) assets - capital. B) assets + liabilities.
C) assets - liabilities. D) assets + capital.
- 65) The money supply has increased from \$1.4 trillion to \$1.45 trillion. Which of the following could have 65) _____
caused this increase?
A) Commercial banks began to hold excess reserves.
B) The Fed sold government securities to the public.
C) Consumers who were holding money outside the banking system deposit this money.
D) The Fed increased the discount rate.