

Test 3

Name: _____ R: _____ ID: _____

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

- 1) The best instrument for controlling week-to-week changes in the money supply is 1) _____
- A) moral suasion. B) open-market operations.
 C) the required reserve ratio. D) the discount rate.

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

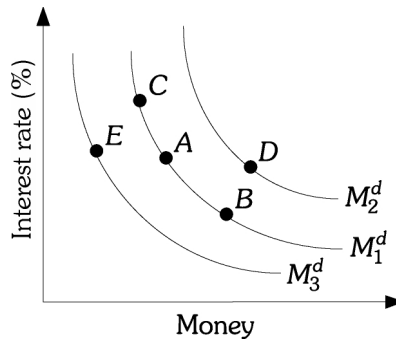


Figure 11.1

- 2) Refer to Figure 11.1. The money demand curve will shift from M_2^d to M_1^d if 2) _____
- A) nominal output decreases. B) interest rates fall.
 C) the price level increases. D) interest rates rise.
- 3) Refer to Figure 11.1. A movement from Point B to Point A can be caused by 3) _____
- A) a decrease in the interest rate. B) an increase in the interest rate.
 C) an increase in the price level. D) a decrease in income.
- 4) Money is 4) _____
- A) backed by gold in Fort Knox.
 B) the same as income.
 C) the value of all coins and currency in circulation at any time.
 D) anything that is generally accepted as a medium of exchange.
- 5) An increase in the interest rate will 5) _____
- A) either increase or decrease the optimal money balance depending on the level of current household wealth.
 B) lower the optimal money balance.
 C) have no impact on the optimal money balance.
 D) increase the optimal money balance.

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

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

- 6) 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.
- 7) 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.
- 8) Refer to Table 10.1. First Charter Bank's total assets are _____
 A) \$400. B) \$800. C) \$1,200. D) \$2,400.
- 9) 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) _____
 A) store of value. B) medium of exchange.
 C) investment good. D) unit of account.

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

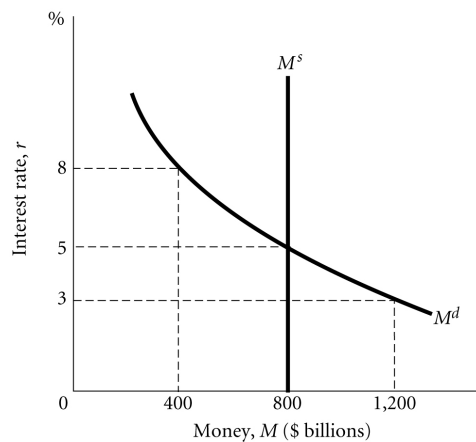


Figure 11.4

- 10) Refer to Figure 11.4. At an interest rate of 3%, there is _____
 A) an excess demand for money of \$800 billion.
 B) an excess demand for money of \$400 billion.
 C) an excess supply of money of \$800 billion.
 D) an excess supply of money of \$400 billion.

- 11) Which of the following sequence of events follows an open market purchase by the Fed? 11) _____
 A) $r \downarrow \Rightarrow I \uparrow \Rightarrow AE \uparrow \Rightarrow Y \uparrow$ B) $r \uparrow \Rightarrow I \uparrow \Rightarrow AE \downarrow \Rightarrow Y \uparrow$
 C) $r \downarrow \Rightarrow I \downarrow \Rightarrow AE \downarrow \Rightarrow Y \downarrow$ D) $r \uparrow \Rightarrow I \downarrow \Rightarrow AE \downarrow \Rightarrow Y \downarrow$
- 12) If interest rates increase to a very high level, people will most likely hold 12) _____
 A) more bonds and less cash. B) more bonds and more cash.
 C) less bonds and more cash. D) less bonds and less cash.
- 13) If the Fed has a strong preference for stable prices relative to output, it responds to a price _____ 13) _____
 with a _____ increase in the interest rate.
 A) decrease; large B) increase; small C) increase; large D) decrease; small

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

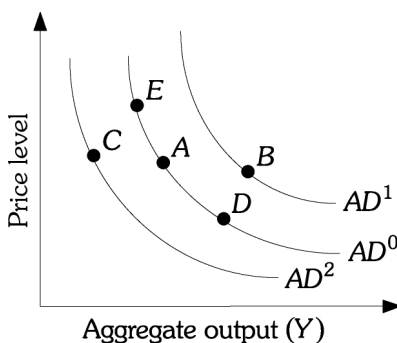


Figure 13.1

- 14) Refer to Figure 13.1. Suppose the economy is at Point A, an decrease in government purchases can cause a movement to Point 14) _____
 A) E. B) B. C) C. D) D.

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

- 15) The President of the NY Federal Reserve Bank is always a member of the Federal Open Market Committee. 15) _____

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

- 16) The money supply has increased from \$1.4 trillion to \$1.45 trillion. Which of the following could have caused this increase? 16) _____
 A) The Fed increased the discount rate.
 B) Consumers who were holding money outside the banking system deposit this money.
 C) The Fed sold government securities to the public.
 D) Commercial banks began to hold excess reserves.
- 17) The Board of governors of the Fed 17) _____
 A) are appointed by the House of Representatives.
 B) have a 7-year term.
 C) has 12 members.
 D) is headquartered in Washington, D.C.

- 18) Aggregate demand increases if 18) _____
A) the Fed raises the discount rate. B) the Fed sells government bonds.
C) the government increases spending. D) the government increases taxes.

- 19) The aggregate demand curve shows that, *ceteris paribus*, 19) _____
A) at higher price levels, total quantity of output supplied is lower.
B) at lower price levels, total quantity of output supplied is lower.
C) at higher price levels, total quantity of output demanded is higher.
D) at lower price levels, total quantity of output demanded is higher.

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

- 20) When interest rates fall, bond values rise. 20) _____

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

- 21) An earthquake destroyed 50% of the Moldovian manufacturing base. The Moldovian government 21) _____
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) both the price level and output level to be lower than what they would have been without the
policy action.
B) the price level to be lower 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 the output level to be higher than they would have been without the
policy action.

- 22) An open-market purchase of securities by the Fed results in _____ in reserves and _____ in the 22) _____
supply of money.
A) a decrease; an increase B) a decrease; a decrease
C) an increase; a decrease D) an increase; an increase

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

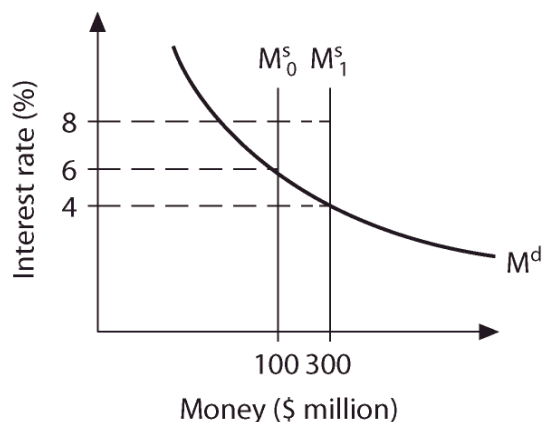


Figure 11.5

- 23) Refer to Figure 11.5. The money supply curve will shift from M_0^S to M_1^S if 23) _____
- A) the Fed buys U.S. government securities in the open market.
 B) the Fed increases the discount rate.
 C) the equilibrium level of output increases.
 D) the Fed increases the reserve requirement.
- 24) Saving account balances are included in 24) _____
- A) M1. B) M2.
 C) both M1 and M2. D) neither M1 nor M2.
- 25) Betty won \$500 in a poker tournament. She deposits her \$500 winnings into a money market fund so 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) 25) _____
- A) unit of account. B) store of value.
 C) investment good. D) medium of exchange.
- 26) The speculative demand for money is 26) _____
- A) negatively related to interest rate. B) positively related to income.
 C) negatively related to income. D) positively related to interest rate.
- 27) A(n) _____ in inflationary expectations that causes firms to decrease their prices shifts the aggregate supply curve to the _____. 27) _____
- A) increase; right B) increase; left C) decrease; left D) decrease; right
- 28) The Federal Open Market Committee (FOMC) directs the Open Market Desk to 28) _____
- A) buy or sell government securities. B) determine the required reserve ratio.
 C) determine the federal funds rate. D) determine the discount rate.

- 29) Which of the following pairs of events will definitely lead to an increase in the equilibrium interest rate? 29) _____
- A) the purchase of government securities by the Federal Reserve and a decrease in nominal aggregate output
 - B) the sale of government securities by the Federal Reserve and an increase in nominal aggregate output
 - C) an increase in the required reserve ratio and a decrease in the level of nominal aggregate output
 - D) a decrease in the discount rate and an increase in the level of nominal aggregate output

- 30) A sudden increase in the price of oil causes a _____ inflation and _____ output. 30) _____
- A) demand-pull; lower
 - B) cost-push; higher
 - C) cost-push; lower
 - D) demand-pull; higher

- 31) When the *AD* curve is vertical, 31) _____
- A) monetary policy can be used to increase output.
 - B) fiscal 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.

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

- 32) 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. 32) _____

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

- 33) The Fed has tended not to use changes in the reserve requirement as a means of controlling the money supply because 33) _____
- A) a change in the reserve requirement has only a very small impact on the money supply.
 - B) only banks that are members of the Fed are subject to reserve requirements, and most banks do not belong to the Fed.
 - C) it takes a long time for the Congress to approve a change in the reserve requirement.
 - D) 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.

- 34) Which of the following would cause the short-run aggregate supply curve to shift to the right? 34) _____
- A) retired workers reentering the labor force
 - B) higher energy prices
 - C) increases in government regulation
 - D) an increase in taxes

- 35) When the economy is producing at full capacity, the aggregate supply curve becomes 35) _____
- A) upward sloping.
 - B) downward sloping.
 - C) horizontal.
 - D) vertical.

Answer Key

Testname: TEST 3 REVIEW

- 1) B
- 2) A
- 3) B
- 4) D
- 5) B
- 6) B
- 7) B
- 8) C
- 9) D
- 10) B
- 11) A
- 12) A
- 13) C
- 14) C
- 15) TRUE
- 16) B
- 17) D
- 18) C
- 19) D
- 20) TRUE
- 21) A
- 22) D
- 23) A
- 24) B
- 25) B
- 26) A
- 27) D
- 28) A
- 29) B
- 30) C
- 31) B
- 32) TRUE
- 33) D
- 34) A
- 35) D