

Test 3

Name: _____ R: _____ ID: _____

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

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

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

- 1) Refer to Table 10.2. First Commercial Bank's total loans equal 1) _____
 A) \$1,000,000. B) \$1,700,000. C) \$2,500,000. D) \$5,000,000.
- 2) Refer to Table 10.2. First Commercial Bank's excess reserves equal 2) _____
 A) \$200,000. B) \$600,000. C) \$1,000,000. D) \$1,500,000.
- 3) Refer to Table 10.2. The required reserve ratio 3) _____
 A) is 5%.
 B) is 10%.
 C) is 20%.
 D) cannot be determined from the given information.
- 4) The aggregate demand curve shows a _____ relationship between _____ and aggregate output 4) _____
 _____.
 A) negative; the price level; demanded B) positive; the price level; demanded
 C) negative; the price level; supplied D) positive; the interest rate; demanded
- 5) Aggregate demand increases if 5) _____
 A) the government increases taxes. B) the Fed raises the discount rate.
 C) the government increases spending. D) the Fed sells government bonds.
- 6) When the aggregate supply curve is vertical, which of the following is NOT true? 6) _____
 A) Any increase in the price level will not cause an increase in aggregate output.
 B) The economy is expanding quickly.
 C) The economy is at capacity.
 D) The economy is producing the maximum sustainable level of output.
- 7) The best instrument for controlling week-to-week changes in the money supply is 7) _____
 A) moral suasion. B) the discount rate.
 C) open-market operations. D) the required reserve ratio.

- 8) For an economy to experience both a recession and inflation at the same time, 8) _____
 A) the aggregate demand curve must shift to the left.
 B) the aggregate supply curve must shift to the left.
 C) the aggregate demand curve must shift to the right.
 D) the aggregate supply curve must shift to the right.
- 9) An economic condition characterized by high unemployment and excessive inflation is called 9) _____
 A) recessionary downturn. B) stagflation.
 C) expansionary growth. D) depression.

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

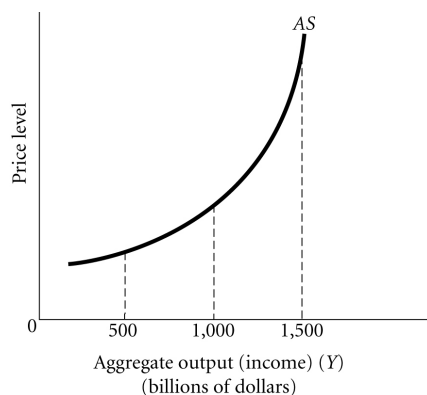


Figure 12.1

- 10) Refer to Figure 12.1. This economy reaches capacity at 10) _____
 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.
- 11) 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 11) _____
 A) positive. B) indeterminate. C) constant. D) negative.
- 12) The Federal Reserve System consists of _____ Federal Reserve Banks. 12) _____
 A) 8 B) 10 C) 12 D) 14
- 13) A decrease in the required reserve ratio 13) _____
 A) will not change the money supply. B) will decrease the money supply.
 C) will decrease the discount rate. D) will increase the money supply.
- 14) When you pay \$8 for salad you ordered for lunch, you are using money as a(n) 14) _____
 A) medium of exchange. B) investment good.
 C) unit of account. D) store of value.

- 15) Which of the following leads to an increase in the interest rate? 15) _____
- A) a decrease in the price level B) a decrease in nominal aggregate output
 C) a decrease in the discount rate D) a sale of government securities by the Fed
- 16) Which of the following sequence of events follows a rise in the discount rate? 16) _____
- A) $r \downarrow \Rightarrow I \downarrow \Rightarrow AE \downarrow \Rightarrow Y \uparrow$ B) $r \uparrow \Rightarrow I \uparrow \Rightarrow AE \uparrow \Rightarrow Y \uparrow$
 C) $r \downarrow \Rightarrow I \uparrow \Rightarrow AE \uparrow \Rightarrow Y \uparrow$ D) $r \uparrow \Rightarrow I \downarrow \Rightarrow AE \downarrow \Rightarrow Y \downarrow$
- 17) Net worth is 17) _____
- A) assets - liabilities. B) assets + liabilities.
 C) assets - capital. D) assets + capital.

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

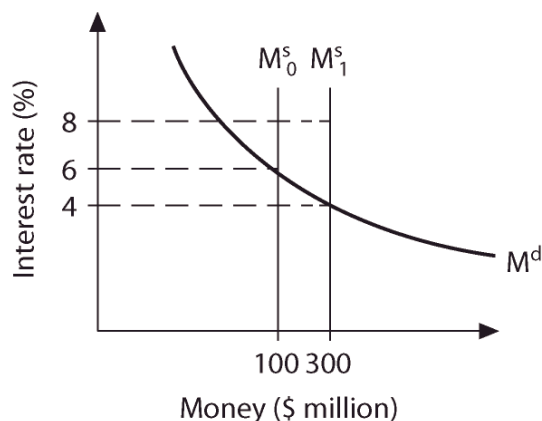


Figure 11.5

- 18) Refer to Figure 11.5. The money supply curve will shift from M_1^S to M_0^S if 18) _____
- A) the Fed increases the reserve requirement.
 B) the Fed decreases the discount rate.
 C) the Fed buys U.S. government securities in the open market.
 D) the equilibrium level of output increases.
- 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 19) _____
- 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 output level to be lower than what they would have been without the policy action.
 C) both the price level and the output level to be higher than they would have been without the policy action.
 D) the price level to be higher and the output level to be lower than they would have been without the policy action.

20) The price of bonds and the interest rate are 20) _____
A) positively related.
B) not related.
C) sometimes positively related and other times negatively related, depending on the bond payments.
D) negatively related.

21) After World War II, cigarettes were used as money in Germany. This is an example of 21) _____
A) fiat money. B) token money.
C) commodity money. D) legal money.

22) Transaction money is 22) _____
A) M1. B) M2. C) M3. D) M4.

23) An increase in the discount rate and an increase in the level of nominal aggregate output will have 23) _____
what effect on the equilibrium interest rate?
A) an indeterminate effect on the interest rate B) no effect on the interest rate
C) an increase in the interest rate D) a decrease in the interest rate

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

24) If the *AD* curve is relatively flat, the Fed is willing to accept large changes in output to keep the price 24) _____
level stable.

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

25) The aggregate demand curve would shift to the left if 25) _____
A) the cost of energy were to decrease. B) net taxes were increased.
C) government spending were increased. D) the money supply were increased.

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

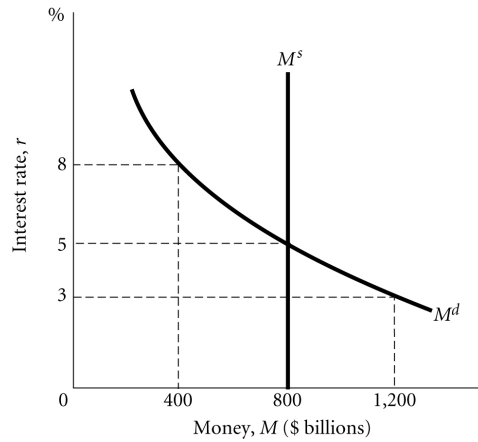


Figure 11.4

- 26) Refer to Figure 11.4. At an interest rate of 8%, there is 26) _____
 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.
- 27) Refer to Figure 11.4. At an interest rate of 5%, firms and households 27) _____
 A) will attempt to increase both their holdings of money and their holdings of bonds.
 B) will attempt to increase their holdings of money by selling bonds.
 C) will attempt to reduce their holdings of money by buying bonds.
 D) are satisfied with the amount of money they are holding.
- 28) Which of the following would cause the short-run aggregate supply curve to shift to the right? 28) _____
 A) higher energy prices
 B) increases in government regulation
 C) retired workers reentering the labor force
 D) an increase in taxes

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

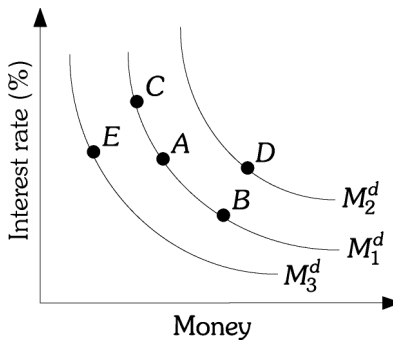


Figure 11.1

- 29) Refer to Figure 11.1. A movement from Point D to Point A can be caused by 29) _____
 A) an increase in income.
 B) a decrease in nominal aggregate output.
 C) a decrease in the interest rate.
 D) an increase in the interest rate.

30) Traveler's checks are

A) not money.

C) not included in M1.

B) not included in M2.

D) included in M1 and M2.

30) _____

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

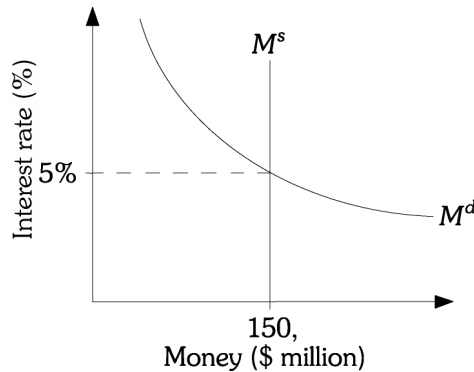


Figure 11.3

31) Refer to Figure 11.3. A decrease in nominal aggregate output, *ceteris paribus*, will likely

A) increase the equilibrium interest rate without changing equilibrium money holdings.

B) decrease both the equilibrium interest rate and equilibrium money holdings.

C) decrease the equilibrium interest rate without changing equilibrium money holdings.

D) increase the equilibrium interest rate and decrease equilibrium money holdings.

31) _____

32) Refer to Figure 11.3. At an interest rate of 6%, there is a

A) surplus of money and the interest rate will decline.

B) shortage of money and the interest rate will decline.

C) surplus of money and the interest rate will rise.

D) shortage of money and the interest rate will rise.

32) _____

33) The Fed has tended not to use changes in the reserve requirement as a means of controlling the money supply because

A) only banks that are members of the Fed are subject to reserve requirements, and most banks do not belong to the Fed.

B) a change in the reserve requirement has only a very small impact on the money supply.

C) 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.

D) it takes a long time for the Congress to approve a change in the reserve requirement.

33) _____

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

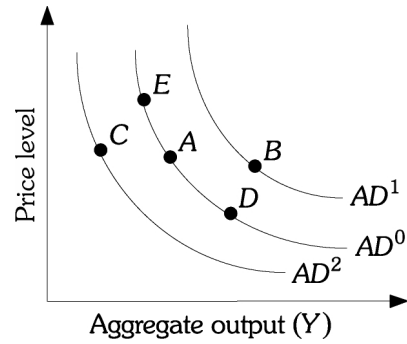


Figure 13.1

- 34) 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.
- 35) 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) change in an uncertain direction. D) rise.

Answer Key

Testname: COPY OF TEST 3 REVIEW

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