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

1) Of the four players in the money supply process, most observers agree that the most important player is

2) The sum of the Fed's monetary liabilities and the U.S. Treasury's monetary liabilities is called
   A) the money supply. B) currency in circulation.
   C) the monetary base. D) bank reserves.

3) When the Federal Reserve purchases a government bond in the open market,
   A) reserves in the banking system increase.
   B) Federal Reserve liabilities remain unchanged.
   C) Federal Reserve liabilities decline.
   D) reserves in the banking system decline.
   E) both (b) and (d) of the above occur.

4) When the Federal Reserve sells a government bond in the open market,
   A) Federal Reserve liabilities remain unchanged.
   B) reserves in the banking system decline.
   C) reserves in the banking system increase.
   D) both (a) and (b) occur.

5) When the Fed wants to increase the level of reserves in the banking system, it can
A) purchase government bonds.

B) sell government bonds.

C) extend discount loans to banks.

D) do both (a) and (c).

6) Excess reserves are equal to
A) vault cash plus deposits with Federal Reserve banks minus required reserves.
B) total reserves minus discount loans.
C) vault cash minus required reserves.
D) deposits with the Fed minus vault cash plus required reserves.

7) A bank cannot increase its loans by an amount greater than
A) 5 percent of its net worth.
B) 10 percent of its net worth.
C) the total reserves it has before it makes the loan.
D) the excess reserves it has before it makes the loan.

8) If a bank has excess reserves of $10,000 and demand deposit liabilities of
$80,000, and if the reserve requirement is 20 percent, then the bank has actual
reserves of
A) $26,000.
B) $20,000.
C) $6,000.
D) $16,000.
E) $36,000.
9) A bank has excess reserves of $6,000 and demand deposit liabilities of $100,000 when the required reserve ratio is 20 percent. If the reserve ratio is raised to 25 percent, the bank's excess reserves will be

A) -$ 1,000. B) $5,000. C) $1,000. D) -$5,000.

10) If the required reserve ratio is 15 percent, the simple deposit multiplier is approximately

A) 6.67 B) 15.0. C) 3.33. D) 1.5.

11) The monetary base is the sum of

A) Federal Reserve currency in circulation and Treasury currency in circulation.
B) Government securities and currency in circulation.
C) vault cash, deposits at the Fed, and Federal Reserve currency in circulation.
D) vault cash, deposits at the Fed, and currency in circulation.

12) When the Fed supplies the banking system with an extra dollar of reserves, deposits increase by more than one dollar—a process called

A) multiple deposit creation.
B) expansionary deposit creation.
C) extra deposit creation.
D) stimulative deposit creation.

13) The formula for the simple deposit multiplier can be expressed as

A) triangleR=(1 divide_elementsubscript_element) multiplytriangleD B) triangleR=(1 divide_elementsubscript_element) multiplytriangleD
C) triangleD=(1 divide_elementsubscript_element) multiplytriangleR D) triangler=(1 divide_elementsubscript_element) multiplytriangleT
14) If reserves in the banking system increase by $100, then checkable deposits will increase by $1000 in the simple model of deposit creation when the required reserve ratio is

A) 0.05  B) 0.20  C) 0.10  D) 0.01

15) Which of the following are not found on the asset side of the Fed's balance sheet?

A) U.S. Treasury bills
B) U.S. Treasury deposits
C) Cash items in the process of collection
D) Discount loans

16) Which of the following are not found on the liability side of the Fed's balance sheet?

A) Discount loans
B) Bank deposits
C) U.S. Treasury deposits
D) Deferred availability cash items

17) Float is defined as

A) U.S. Treasury deposits minus bank deposits.
B) reserves minus currency in circulation.
C) cash items in the process of collection minus deferred availability cash items.
D) bank deposits minus U.S. Treasury deposits.
E) deferred availability cash items minus cash items in the process of collection.

18) If the Fed injects reserves into the banking system and they are held as excess reserves, then the money supply
A) increases by a multiple of the initial increase in reserves.
B) does not change.
C) increases by only the initial increase in reserves.
D) increases by only one-half the initial increase in reserves.

19) For a given level of the monetary base, an increase in the required reserve ratio on checkable deposits will mean
A) an increase in the money supply.
B) a decrease in the money supply.
C) an increase in checkable deposits.
D) an increase in discount borrowing.

20) For a given level of the monetary base, an increase in the required reserve ratio on checkable deposits causes the money multiplier to _____ and the money supply to _____.
A) decrease; increase  B) decrease; decrease
C) increase; increase  D) increase; increase

21) Models describing the determination of the money supply and the Fed's role in this process normally focus on _____ rather than _____, since Fed actions have a more predictable effect on the former.
A) reserves; high-powered money
B) the monetary base; high-powered money
22) If the required reserve ratio is ten percent, currency in circulation is $400 billion, checkable deposits are $800 billion, and excess reserves total $0.8 billion, then the money multiplier is approximately

A) 2.0. B) 0.601. C) 1.67. D) 2.5.

23) Other things equal, rising market interest rates encourage banks to

A) increase discount borrowings from the Fed.

B) hold more excess reserves.

C) hold fewer excess reserves.

D) do both (a) and (b) of the above.

E) do both (a) and (c) of the above.

24) Which of the following is the most important determinant in explaining movements in the money supply over time?

A) Changes in the required reserve ratios

B) Changes in the nonborrowed monetary base

C) Changes in the discount rate

D) Changes in the currency ratio

25) All else constant, a rise in market interest rates leads to

A) a rise in discount borrowing and a rise in the money supply.

B) a fall in excess reserves and a fall in the money supply.

C) a fall in discount borrowing and a rise in the money supply.
D) a rise in excess reserves and a rise in the money supply.
E) none of the above.

26) The excess reserves ratio is _____ related to expected deposit outflows, and is _____ related to the market interest rate.
   A) negatively; negatively  B) positively; negatively  
   C) negatively; positively  D) positively; positively

27) The amount of discount loans is _____ related to the discount rate, and is _____ related to the market interest rate.
   A) negatively; positively  B) positively; positively  
   C) positively; negatively  D) negatively; negatively

28) The Fed uses three policy tools to manipulate the money supply: _____, which affect reserves and the monetary base; changes in _____, which affect reserves and the monetary base by influencing the quantity of discount loans; and changes in _____, which affect the money multiplier.
   A) open market operations; the discount rate; margin requirements.  
   B) open market operations; the discount rate; reserve requirements.  
   C) the discount rate; open market operations; reserve requirements.  
   D) the discount rate; open market operations; margin requirements.

29) Open market purchases raise the _____ thereby raising the _____.
   A) money multiplier; money supply  
   B) money base; money multiplier  
   C) money multiplier; monetary base  
   D) monetary base; money supply
30) The Fed's most commonly used means of changing the money supply is
A) changing reserve requirements.
B) changes in the Regulation Q ceiling rate.
C) changing the discount rate.
D) open market operations.

31) The most common type of discount loan, _____ credit loans, are intended to help banks with short-term liquidity problems that often result from temporary deposit outflows.
A) extended B) seasonal
C) temporary D) adjustment

32) At its inception, the Federal Reserve was intended to be
A) a lender-of-last-resort.
B) the Treasury's banker.
C) the issuer of government debt.
D) a regulator of bank holding companies.

33) A _____ in reserve requirements _____ the money supply since it causes the money multiplier to _____.
A) rise; decrease; rise
B) rise; decrease; fall
C) rise; increase; rise
D) decrease; decreases; fall
E) decrease; increases; fall
34) Open market operations as a monetary policy tool have the advantages that
   A) they are easily reversed if mistakes are made.
   B) they are flexible and precise.
   C) they can be implemented quickly without administrative delays.
   D) all of the above.
   E) only (a) and (b) of the above.

35) Extended credit is
   A) given to banks that have experienced severe liquidity problems.
   B) granted to banks only after they have submitted a plan for restoring their
      liquidity.
   C) the most common type of discount loan.
   D) all of the above.
   E) only (a) and (b) of the above.

36) In the market for reserves, an open market _____ shifts the supply curve to
    the _____, lowering the federal funds interest rate.
   A) sale; left  B) purchase; left
   C) sale; right D) purchase; right

37) In the market for reserves, a _____ discount rate shifts the supply curve to
    the _____, lowering the federal funds interest rate.
   A) higher; left  B) lower; left
   C) lower; right D) higher; right
38) In the market for reserves, a _____ in the reserve requirement shifts the demand curve to the _____, lowering the federal funds interest rate.
A) rise; left  B) rise; right  
C) decline; left  D) decline; right

39) When workers voluntarily leave work while they look for better jobs, the resulting unemployment is called
A) cyclical unemployment.  B) structural unemployment.
C) underemployment.  D) frictional unemployment.

40) Which of the following is not an operating target?
A) Monetary base  
B) Discount rate  
C) Federal funds interest rate  
D) Nonborrowed reserves  
E) All are operating targets

41) If the central bank targets a monetary aggregate, it is likely to lose control over the interest rate because
A) of fluctuations in the consumption function.  
B) of fluctuations in the money demand function.  
C) of fluctuations in the business cycle.  
D) bond values will tend to remain stable.

42) Which of the following is not a requirement in selecting an intermediate target?
A) predictability. B) controllability.
C) measurability. D) flexibility.

43) When it comes to choosing an operating target, both the _____ rate and _____ aggregates are measured accurately and are available daily with almost no delay.
A) federal funds; reserve
B) three-month T-bill; monetary
C) three-month T-bill; reserve
D) federal funds; monetary

44) Which of the following criteria need not be satisfied for choosing an intermediate target?
A) The variable must be transportable.
B) The variable must be predictable.
C) The variable must be controllable.
D) The variable must be measurable.

45) Tobin's q is defined as
A) market value of firms minus replacement cost of capital.
B) market value of firms plus replacement cost of capital.
C) market value of firms times replacement cost of capital.
D) market value of firms divided by replacement cost of capital.

46) Because of the presence of asymmetric information problems in credit markets, an expansionary monetary policy causes a _____ in net worth, which
the adverse selection problem, thereby increased lending to finance investment spending.

A) decline; reduces; discouraging
B) rise; reduces; encouraging
C) rise; reduces; discouraging
D) rise; increases; discouraging
E) decline; increases; encouraging

47) According to the household liquidity effect, an expansionary monetary policy causes a ______ the value of households' financial assets, causing consumer durable expenditure to ______.

A) decline; rise B) decline; fall
C) rise; fall D) rise; rise

48) According to the traditional interest rate channel, expansionary monetary policy lowers the real interest rate, thereby raising expenditure on

A) residential housing.
B) business fixed investment.
C) consumer durables.
D) each of the above.
E) only (a) and (b) of the above.

49) Because an expansionary monetary policy can raise the expected price level, thereby lowering the real interest rate,

A) the so-called liquidity trap may not prevent monetary policy from stimulating spending.
B) spending can be stimulated through the interest-rate channel.
C) monetary policy can be effective even when nominal interest rates have been driven down to zero.
D) all of the above can occur.
E) only (a) and (b) of the above can occur.

50) An expansionary monetary policy lowers the real interest rate, causing the domestic currency to _____, thereby _____ net exports.
A) depreciate; lowering B) appreciate; raising
C) depreciate; raising D) appreciate; lowering

51) Mishkin concludes that four basic lessons regarding monetary policy can be drawn from chapter 25. These lessons include:
A) It is dangerous always to associate the easing or tightening of monetary policy with a fall or a rise in short-term interest rates.
B) Monetary policy can be highly effective in reviving a weak economy even if short-term interest rates are already near zero.
C) Avoiding fluctuations in the level of unemployment is an important objective of monetary policy, thus providing a rationale for interest-rate stability as the primary long-run goal for monetary policy.
D) All of the above.
E) Only (a) and (b) of the above.

1) Answer: C

2) Answer: C

3) Answer: A
4) Answer: B

5) Answer: D

6) Answer: A

7) Answer: D

8) Answer: A

9) Answer: C

10) Answer: A

11) Answer: D

12) Answer: A
13) Answer: C

14) Answer: C

15) Answer: B

16) Answer: A

17) Answer: C

18) Answer: B

19) Answer: B

20) Answer: B

21) Answer: C

22) Answer: D
23) Answer: E

24) Answer: B

25) Answer: A

26) Answer: B

27) Answer: A

28) Answer: B

29) Answer: D

30) Answer: D

31) Answer: D
42) Answer: D

43) Answer: A

44) Answer: A

45) Answer: D

46) Answer: B

47) Answer: D

48) Answer: D

49) Answer: D

50) Answer: C
51) Answer: E