

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

- 1) Each governor on the Board of Governors can serve
 - a) only one nonrenewable fourteen-year term.
 - b) one full nonrenewable fourteen-year term plus part of another term.
 - c) only one nonrenewable eight-year term.
 - d) one full nonrenewable eight-year term plus part of another term.

- 2) The two types of open market operations are
 - a) dynamic and reactionary.
 - b) dynamic and defensive.
 - c) active and passive.
 - d) offensive and defensive.

- 3) If the money supply is \$500 and nominal income is \$3,000, the velocity of money is
 - a) 1/60.
 - b) 1/6.
 - c) 6.
 - d) 60.

- 4) _____ is the relative ease and speed with which an asset can be converted into a medium of exchange.
 - a) Liquidity
 - b) Deflation
 - c) Efficiency
 - d) Specialization

- 5) When the Fed extends a \$100 discount loan to the First National Bank, reserves in the banking system
 - a) decrease by \$100.
 - b) increase by more than \$100.
 - c) decrease by more than \$100.
 - d) increase by \$100.

- 6) Paper currency that has been declared legal tender but is not convertible into coins or precious metals is called _____ money.
 - a) commodity
 - b) electronic
 - c) fiat
 - d) funny

- 7) The interest rate the Fed charges banks borrowing from the Fed is the
 - a) Treasury bill rate.
 - b) federal funds rate.
 - c) prime rate.
 - d) discount rate.

- 8) Because it is a unit of account, money
 - a) increases transaction costs.
 - b) discourages specialization.
 - c) reduces the number of prices that need to be calculated.
 - d) does not earn interest.

- 9) The equation of exchange is
 - a) $M + Y = V + P$.
 - b) $M \times V = P \times Y$.
 - c) $M + V = P + Y$.
 - d) $M \times P = V \times Y$.

- 10) The monetary liabilities of the Federal Reserve include
 - a) government securities and discount loans.
 - b) currency in circulation and reserves.
 - c) government securities and reserves.
 - d) currency in circulation and discount loans.

- 11) If bad credit risks are the ones who most actively seek loans, then financial intermediaries face the problem of
- a) moral hazard.
 - b) free-riding.
 - c) costly state verification.
 - d) adverse selection.
- 12) The Federal Reserve usually keeps the discount rate
- a) below the target federal funds rate.
 - b) equal to the target federal funds rate.
 - c) equal to zero.
 - d) above the target federal funds rate.
- 13) If a member of the nonbank public sells a government bond to the Federal Reserve in exchange for currency, the monetary base will _____, but _____.
- a) rise; currency in circulation will remain unchanged
 - b) remain unchanged; reserves will fall
 - c) rise; reserves will remain unchanged
 - d) remain unchanged; reserves will rise
- 14) An examination of revised money supply statistics, when compared to the initial statistics, suggests that the initial statistics
- a) provide a good guide of monetary policy, though they are usually underestimates of the revised statistics.
 - b) do not provide a good guide to short-run movements in the money supply.
 - c) provide a poor guide of monetary policy because they are usually underestimates of the revised statistics.
 - d) are pretty good.
- 15) Each Federal Reserve bank has nine directors. Of these _____ are appointed by the member banks and _____ are appointed by the Board of Governors.
- a) five; four
 - b) six; three
 - c) four; five
 - d) three; six
- 16) The Keynesian theory of money demand emphasizes the importance of
- a) a constant velocity.
 - b) irrational behavior on the part of some economic agents.
 - c) interest rates on the demand for money.
 - d) disposable income.
- 17) The president from which Federal Reserve Bank always has a vote in the Federal Open Market Committee?
- a) San Francisco
 - b) Boston
 - c) New York
 - d) Philadelphia
- 18) Total reserves are the sum of _____ and _____.
- a) vault cash; excess reserves
 - b) excess reserves; borrowed reserves
 - c) required reserves; currency in circulation
 - d) excess reserves; required reserves
- 19) The Federal Reserve entity that makes decisions regarding the conduct of monetary policy is the
- a) Federal Open Market Committee.
 - b) Board of Governors.
 - c) Open Market Advisory Council
 - d) Chairman of the Board of Governors.

- 20) In the simple deposit expansion model, if the required reserve ratio is 20 percent and the Fed increases reserves by \$100, checkable deposits can potentially expand by
 a) \$100. b) \$250. c) \$500. d) \$1,000.
- 21) Velocity, over the business cycle, tends to
 a) fall during economic contractions.
 b) stay constant.
 c) move opposite to output, i.e. countercyclically.
 d) fall during economic expansions.
- 22) An example of economies of scale in the provision of financial services is
 a) providing depositors with a variety of savings options.
 b) pooling the deposits of many customers over time to make long-term loans.
 c) spreading the cost of writing a standardized contract over many borrowers.
 d) investing in a diversified collection of assets.
- 23) Irving Fisher took the view that the institutional features of the economy which affect velocity change _____ over time so that velocity will be fairly _____ in the short run.
 a) slowly; erratic b) slowly; constant c) rapidly; stable d) rapidly; erratic
- 24) The most important advantage of discount policy is that the Fed can use it to
 a) precisely control the monetary base. b) punish banks that have deficient reserves.
 c) perform its role as lender of last resort. d) control the money supply.
- 25) Everything else held constant, in the market for reserves, when the demand for federal funds intersects the reserve supply curve along the horizontal section, increasing the discount rate
 a) lowers the federal funds rate.
 b) has an indeterminate effect on the federal funds rate.
 c) increases the federal funds rate.
 d) has no effect on the federal funds rate.
- 26) Which of the following can be described as direct finance?
 a) You buy a newly issued common stock from a corporation.
 b) You take out a mortgage from your local bank that lasts for 30 years.
 c) You deposit your paycheck in a bank where it is pooled with many other deposits.
 d) You buy shares in a mutual fund.
- 27) Everything else held constant, a decrease in the currency ratio causes the M1 money multiplier to _____ and the money supply to _____.
 a) increase; decrease b) decrease; increase
 c) increase; increase d) decrease; decrease
- 28) A nominal variable, such as the inflation rate or the money supply, which ties down the price level to achieve price stability is called _____ anchor.
 a) a real b) an operating c) a nominal d) an intermediate

- 29) Financial intermediaries
- a) represent an example of "face to face" finance.
 - b) do not enhance efficiency.
 - c) hold very little of the average American's wealth.
 - d) provide a channel that links those who want to save with those who want to invest.
- 30) The strongest argument for an independent Federal Reserve rests on the view that subjecting the Fed to more political pressures would impart
- a) a countercyclical bias to monetary policy.
 - b) a deflationary bias to monetary policy.
 - c) an inflationary bias to monetary policy.
 - d) a disinflationary bias to monetary policy.
- 31) Decisions by depositors to increase their holdings of _____, or of banks to hold _____ will result in a smaller expansion of deposits than the simple model predicts.
- a) currency; required reserves
 - b) currency; excess reserves
 - c) deposits; required reserves
 - d) deposits; excess reserves
- 32) When the Fed sells \$100 worth of bonds to First National Bank, reserves in the banking system
- a) decrease by more than \$100.
 - b) increase by more than \$100.
 - c) increase by \$100.
 - d) decrease by \$100.
- 33) When the federal funds rate equals the interest rate paid on excess reserves _____.
- a) the supply curve of reserves is vertical
 - b) the supply curve of reserves is horizontal
 - c) the demand curve for reserves is vertical
 - d) the demand curve for reserves is horizontal
- 34) Suppose, at a given federal funds rate, there is an excess supply of reserves in the federal funds market. If the Fed wants the federal funds rate to stay at that level, then it should undertake an open market _____ of bonds, everything else held constant. If the Fed does nothing, however, the federal funds rate will _____.
- a) purchase; increase
 - b) purchase; decrease
 - c) sale; decrease
 - d) sale; increase
- 35) The Baumol analysis of money demand suggests that
- a) the transactions component of the demand for money is negatively related to interest rates.
 - b) velocity is relatively constant.
 - c) the speculative motive is nonexistent.
 - d) velocity is unrelated to the transactions motive.
- 36) The interest rate charged on overnight loans of reserves between banks is the
- a) Treasury bill rate.
 - b) federal funds rate.
 - c) prime rate.
 - d) discount rate.
- 37) The research document given to the Federal Open Market Committee that contains information on the state of the economy in each Federal Reserve district is called the
- a) green book.
 - b) beige book.
 - c) black book.
 - d) blue book.

- 38) Defining money becomes _____ difficult as the pace of financial innovation _____.
 a) more; quickens b) more; slows c) less; quickens d) more; stops
- 39) The Fed uses three policy tools to manipulate the money supply: open market operations, which affect the _____; changes in borrowed reserves, which affect the _____; and changes in reserve requirements, which affect the _____.
 a) money multiplier; monetary base; monetary base
 b) money multiplier; money multiplier; monetary base
 c) monetary base; monetary base; money multiplier
 d) monetary base; money multiplier; monetary base
- 40) The _____ interest rate is adjusted for expected changes in the price level.
 a) ex post real b) ex ante nominal c) ex ante real d) ex post nominal
- 41) Which of the following is not included in the M1 measure of money but is included in the M2 measure of money?
 a) Traveler's checks b) Currency
 c) Small-denomination time deposits d) Demand deposits
- 42) Everything else held constant, in the market for reserves, when the federal funds rate is 1%, increasing the interest rate paid on excess reserves from 1% to 2%
 a) has an indeterminate effect on the federal funds rate.
 b) lowers the federal funds rate.
 c) raises the federal funds rate.
 d) has no effect on the federal funds rate.
- 43) The conversion of a barter economy to one that uses money
 a) increases efficiency by reducing the need to store value.
 b) increases efficiency by reducing transactions costs.
 c) increases efficiency by reducing the need to carry precious metals.
 d) does not increase economic efficiency.
- 44) Keynes argued that when interest rates were low relative to some normal value, people would expect bond prices to _____ so the quantity of money demanded would _____.
 a) decrease; decrease b) increase; decrease
 c) decrease; increase d) increase; increase
- 45) In the market for reserves, when the federal funds interest rate is below the discount rate, the supply curve of reserves is
 a) horizontal. b) negatively sloped.
 c) positively sloped. d) vertical.
- 46) The amount of borrowed reserves is _____ related to the discount rate, and is _____ related to the market interest rate.
 a) negatively; negatively b) negatively; positively
 c) positively; negatively d) positively; positively

- 47) Which of the following functions are not performed by any of the twelve regional Federal Reserve Banks?
- a) Check clearing
 - b) Setting interest rates payable on time deposits
 - c) Issuing new currency
 - d) Conducting economic research
- 48) The formula for the M1 money multiplier is (r is the required reserve ration)
- a) $m = (1 + C/D)/(r + ER/D + C/D)$.
 - b) $m = 1/(r + ER/D + C/D) \times R$.
 - c) $m = (1 + C/D)/r$.
 - d) $m = [1/(r + ER/D + C/D)] \times MB$.
- 49) Since 1980, _____ are subject to reserve requirements.
- a) only commercial banks
 - b) all depository institutions
 - c) only the member institutions of the Federal Reserve
 - d) only nationally chartered depository institutions
- 50) All of the following are necessary criteria for a commodity to function as money except
- a) it must be divisible.
 - b) it must deteriorate quickly.
 - c) it must be easy to carry.
 - d) it must be widely accepted.