1. When an asset is generally accepted as a means of payment for goods and services:
    a. it must be backed by a specific commodity, such as gold or silver.
    b. it is also one of the best stores of wealth.
    c. it is a medium of exchange and is a form of money.
    d. all of the above are true.

Use the data in the table below to answer the next two questions.

Currency held by the public	**$300 billion**
Checkable deposits	**$900 billion**
Traveler's checks	**$20 billion**
Small time and savings deposits	**$500 billion**
Money market accounts	**$200 billion**
Total bank reserves	**$90 billion**
Excess reserves	**$0**

2. The value of the M1 money supply is:
    a. $1,220 billion.
    b. $1,200 billion.
    c. $2,170 billion.
    d. $1,720 billion.

3. In this instance, the required-reserve ratio is:
    a. 10%.
    b. 5%.
    c. 12.5%.
    d. 20%.

4. The use of money is more efficient than barter because:
    a. barter results in a more specialized economy.
    b. barter requires a double coincidence of wants and cuts down on transaction time.
    c. money requires a double coincidence of wants and cuts down on transaction time.
    d. money results in a more specialized economy.

5.   You are using money as a store of value when you:
       a.   put part of your monthly income into a retirement account.
       b.   purchase an ice cream cone.
       c.   tell a friend how much you paid for your new car.
       d.   save an old $20 bill in the hope that it may become a collector's item.

6.   Which of the following assets is most liquid?
       a.   A $10,000 certificate of deposit
       b.   A house
       c. $5,000 in a checking account
       d.   A 90-day U.S. Treasury bill

7.   When depositors move funds from their money market accounts into their checking
       accounts:
       a.   M1 increases, M2 decreases, and the system becomes more liquid.
       b.   M1 increases, M2 stays the same, and the system becomes less liquid.
       c.   M1 decreases, M2 increases, and the system becomes more liquid.
       d.   M1 increases, M2 stays the same, and the system becomes more liquid.

8.   In a fractional reserve banking system, money is created when:
       a.   banks accept cash deposits.
       b.   the Treasury Department mints new coins.
       c.   banks make new loans.
       d.   the U.S. Mint issues new paper money.

9.   Banks are required to hold:
       a.   a fraction of total deposits as vault cash or on deposit at the Federal Reserve.
       b.   a multiple of total deposits as vault cash or on deposit at the Federal Reserve.
       c.   whatever amount of cash they feel is prudent.
       d.   enough cash to back every dollar of deposits.

10.   An increase in the required-reserve ratio will:
       a.   increase the value of the simple deposit multiplier.
       b.   decrease the value of the simple deposit multiplier.
       c.   have no impact on the value of the simple deposit multiplier.
       d.   nullify the value of the simple deposit multiplier.

11.   If checkable deposits are $4,000,000 and required reserves are $200,000, then the
       required-reserve ratio is:
       a.   5%.   b.   10%.   c.   15%.   d.   20%.

12.   If the required-reserve ratio is 20% and the banking system has total reserves of $10
       billion, then the maximum amount of checkable deposits that the banking system can
       legally support is:
       a. $50 billion.   c. $10 billion.
       b. $20 billion.   d. $5 billion.

Use the information in the t-account below to answer the next two questions.

Assets		Liabilities	
Total Bank Reserves	$75,000	Checkable Deposits	$500,000
Loans	$425,000		

13. If the required-reserve ratio is 10%, then required reserves are equal to:
    a. $10,000.
    b. $50,000.
    c. $75,000.
    d. $425,000.

14. If the required-reserve ratio is 10%, then excess reserves are equal to _____, and this bank can lend a maximum of _____.
    a. $25,000; $25,000
    b. $0; $425,000
    c. $10,000; $65,000
    d. $50,000; $50,000

15. If the required-reserve ratio is 20%, the simple deposit multiplier is equal to:
    a.   2.   b.   4.   c.   5.   d.   10.

16. Federal Reserve District Banks:
    a.   accept deposits from individuals.
    b.   provide currency to banks.
    c.   insure individual deposits up to $100,000.
    d.   make loans to corporations and the government.

17. If the required-reserve ratio is 15%, Bank A has to keep _____ in the form of required reserves and can make a loan equal to _____ when Mr. Jones deposits $2,000 in cash he previously kept underneath his mattress into a checking account at Bank A.
    a. $15; $1,985
    b. $150; $1,850
    c. $300; $1,700
    d. $200; $1,800

18. The Federal Reserve Board of Governors consists of:
    a.   12 members appointed by the President to 14-year terms.
    b.   12 members appointed by the Senate to lifetime terms.
    c.   7 members elected by Congress to lifetime terms.
    d.   7 members appointed by the President to 14-year terms.

19.   The primary responsibility of the Federal Reserve System is to:
a.   make loans to businesses and consumers.
b.   help Congress set tax rates and interest rates to foster economic growth.
c.   issue government bonds to finance the government budget deficit.
d.   control the flow of money and credit through the economy.

20.   The rate of interest that a bank pays to the Fed for an overnight loan of reserves is the
_____; the rate of interest that one bank pays another for an overnight loan of
reserves is the _____.
a.   short-term rate; prime rate
b.   prime rate; discount rate
c.   federal funds rate; discount rate
d.   discount rate; federal funds rate

21.   When the Federal Reserve buys bonds in the open market:
a.   the money supply expands and interest rates fall.
b.   the money supply expands and interest rates rise.
c.   the money supply contracts and interest rates fall.
d.   the money supply contracts and interest rates rise.

22.   The primary tool used by the Federal Reserve to control the nation's money supply is:
a.   changes in the required reserve ratio.
b.   changes in the prime rate.
c.   open market operations.
d.   issuance of new U.S. Treasury securities.

23.   Suppose the Board of Governors has determined that easier credit conditions and lower
interest rates would improve the economy's performance. To accomplish this goal, they
might do which of the following?
a.   Raise the required-reserve ration
b.   Announce a higher discount rate
c.   Sell government bonds in the open market
d.   Announce a lower federal funds rate target

24.   The Federal Reserve is the:
a.   lender of the last resort to financial institutions.
b.   primary lender to financial institutions.
c.   nation's largest lender to corporations.
d.   best place for consumers to get low-interest loans.

25.   The use of money and credit controls to influence macroeconomic outcomes is:
a.   fiscal policy and is conducted by the U.S. Congress
b.   monetary policy and is conducted by the U.S. Congress
c.   fiscal policy and is conducted by the Federal Reserve.
d.   monetary policy and is conducted by the Federal Reserve.

Use the information in the t-account below to answer the next two questions.

Assets		Liabilities	
Total Bank Reserves	$2 billion	Checkable Deposits	$10 billion
Loans	$7 billion		
Securities	$1 billion		

26. Assume the required reserve ratio is 20%. If the Federal Reserve buys $1 billion worth of government bonds from banks, total bank reserves will rise to _____ billion, and excess reserves will equal _____ billion.
   a. $2.1; $0.1   b. $3; $3   c. $3; $1   d. $2.5; $2

27. After the purchase of securities by the Fed, if all banks make loans until excess reserves equal zero and there are no cash leakages, checkable deposits can expand as a result of new lending by a maximum of (assuming a required reserve ratio of 20%):
   a. $1 billion.   c. $2 billion.
   b. $5 billion.   d. $20 billion.

28. Contractionary monetary policy tools include all of the following *except*:
   a. raising the discount rate.
   b. raising the required reserve ratio.
   c. open market purchases of securities by the Fed.
   d. open market sales of securities by the Fed.

29. Ceteris paribus, if the Fed buys government bonds in the open market, then the:
   a. money supply will shift to the right, causing interest rates to fall.
   b. money supply will shift to the left, causing interest rates to rise.
   c. money demand will shift to the right, causing interest rates to fall.
   d. money demand will shift to the left, causing interest rates to rise.

30. If the nominal rate of interest is 7% and the expected real rate of interest is 5%, then the expected inflation rate must be equal to:
   a. 2%.
   b. 5%.
   c. 7%.
   d. 12%.

31. Money as an asset loses real value:
   a. during periods of inflation.
   b. during periods of deflation.
   c. when interest rates on financial assets are low.
   d. when nominal income becomes negative.

32.   The Keynesian "liquidity trap" is the:
    a.   horizontal portion of the money demand curve.
    b.   horizontal portion of the short-run aggregate supply curve.
    c.   vertical portion of the money demand curve.
    d.   the vertical portion of the short-run aggregate supply curve.

33.   From a Keynesian perspective, a decrease in the money supply:
    a.   puts upward pressure on interest rates, investment spending falls, and aggregate demand shifts left.
    b.   puts downward pressure on interest rates, investment spending rises, and aggregate demand shifts right.
    c.   leads directly to a decrease in aggregate supply.
    d.   leads directly to an increase in aggregate demand.

34.   Keynesian monetary policy targets:
    a.   the growth rate of the money supply.
    b.   the interest rate.
    c.   aggregate supply.
    d.   household spending.

Refer to the graph below to answer the next question.
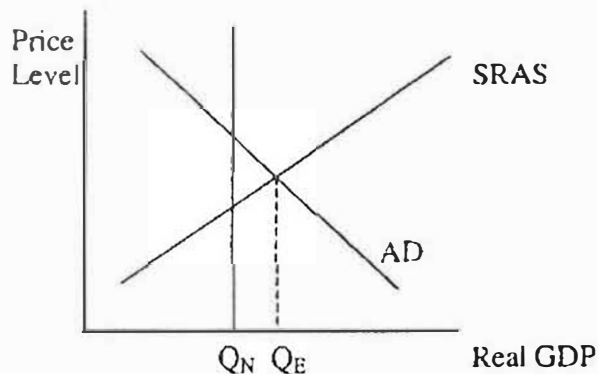
35.   A monetary policy solution to the situation in the graph above would be:
    a.   steady and predictable growth in the money supply to maintain stability because the economy is at full employment.
    b.   increasing the growth rate of the money supply to increase stability because the economy is at full employment.
    c.   the use of active fiscal policy by Congress to close the recessionary gap.
    d.   the Federal Reserve raising interest rates to control inflation.

36.   Ceteris paribus, when there is an increase in bond prices:
    a.   the supply of bonds decreases.
    b.   the supply of money decreases.
    c.   interest rates (bond yields) fall.
    d.   interest rates (bond yields) rise.

37.   The equation of exchange is:
    a. $MV = PQ$.
    b. $MP = VQ$.
    c. $GDP = C + I + G + (EX - IM)$.
    d. $L = M1 + M2 + M3$.

38.   The short run impact of the Fed pursuing an expansionary monetary policy is:
    a.   an increase in interest rates and a decrease in spending.
    b.   an increase in interest rates and an increase in spending.
    c.   a decrease in interest rates and an increase in spending.
    d.   a decrease in interest rates and a decrease in spending.

39.   According to Monetarists, the primary determinant of inflation in the long run is:
    a.   labor union activity.
    b.   excessively high income tax rates.
    c.   excessive monetary growth.
    d.   supply shocks such as droughts and OPEC activity.

40.   The notion that the Fed should adhere to a policy of steady and predictable expansion of the money supply represents:
    a.   the monetary rule put forth by Monetarists.
    b.   the fiscal rule put forth by Monetarists.
    c.   the monetary rule put forth by Keynesians.
    d.   the fiscal rule put forth by Keynesians.

Answer Key:

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