

Final Exam

Name \_\_\_\_\_

Id # \_\_\_\_\_

Instructions: There are 30 questions on this final. Please mark your answer on the exam paper as well as on the scantron sheet and turn the exam in at the end.

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

- 1) When the Fed wants to increase the level of reserves of the banking system, it can
- A) buy government bonds from banks.
  - B) increase discount loans to banks.
  - C) buy government bonds from the general public.
  - D) do any of the above.
  - E) do only A and B of the above.

Answer: D

- 2) In the Baumol-Tobin analysis, the precautionary demand for money is
- A) positively related to the level of income.
  - B) positively related to the level of interest rates.
  - C) negatively related to the expected return on other assets.
  - D) only A and C of the above.

Answer: D

- 3) The money market is in equilibrium
- A) at any point on the ISLM diagram.
  - B) at any point on the LM curve.
  - C) at any point on the IS curve.
  - D) at only one point on the LM curve.
  - E) only at the intersection of the IS and LM curves.

Answer: B

- 4) In the market for reserves, a \_\_\_\_\_ in the reserve requirement shifts the demand curve to the \_\_\_\_\_, raising the federal funds interest rate.
- A) rise; right                      B) rise; left                      C) decline; left                      D) decline; right

Answer: A

- 5) When the IS and LM curves are combined in the same diagram, the intersection of the two curves determines the equilibrium level of \_\_\_\_\_ as well as the \_\_\_\_\_.
- A) money supply; price level
  - B) aggregate output; interest rate
  - C) aggregate output; price level
  - D) consumer expenditures; interest rate

Answer: B

- 6) Cutting the money supply by one-third is predicted by the quantity theory of money to cause
- A) a decline in output by one-sixth, and a decline in the price level of one-sixth.
  - B) a sharp decline in real output of one-third in the short run, and a fall in the price level by one-third in the long run.
  - C) a decline in the price level by one-third.
  - D) a decline in real output by one-third.
  - E) none of the above are true.

Answer: C

- 7) Fisher's quantity theory of money suggests that the demand for money
- A) is purely a function of income, and interest rates have no effect on the demand for money.
  - B) is purely a function of expectations, and income has no effect on the demand for money.
  - C) is purely a function of government spending, and interest rates have no effect on the demand for money.
  - D) is purely a function of interest rates, and income has no effect on the demand for money.

Answer: A

- 8) The speculative demand for money may not exist because
- A) banks now pay interest on some types of checkable deposits.
  - B) government regulations have eliminated risk in the financial markets.
  - C) there are alternative riskless assets paying higher returns than the return on money.
  - D) the transactions demand can be shown to depend on interest rates.
  - E) interest rates paid on money are zero.

Answer: C

- 9) The federal funds rate is the
- A) interest rate on overnight loans of reserves between banks.
  - B) interest rate the government pays when borrowing from banks.
  - C) interest rate on government debt.
  - D) all of the above.
  - E) both A and C of the above.

Answer: A

10) The goals of monetary policy include

- A) output stability.
- B) price stability.
- C) stability of the financial markets.
- D) all of the above.
- E) both B and C of the above.

Answer: E

11) If the required reserve ratio is equal to 10 percent, a single bank can increase its loans up to a maximum amount equal to

- A) its total reserves.
- B) 10 times its excess reserves.
- C) 10 percent of its excess reserves.
- D) its excess reserves.

Answer: D

12) If the required reserve ratio is 10 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) 1.67.
- B) 0.601.
- C) 2.0.
- D) 2.5.

Answer: D

13) The formula linking the money supply to the monetary base is

- A)  $M = m/MB$ .
- B)  $M = m \times MB$ .
- C)  $M = m + MB$ .
- D)  $m = M \times MB$ .
- E)  $MB = M \times m$ .

Answer: B

14) If the required reserve ratio is one-third, currency in circulation is \$300 billion, and checkable deposits are \$900 billion, then the monetary base is

- A) \$600 billion.
- B) \$333 billion.
- C) \$300 billion.
- D) \$667 billion.

Answer: A

- 15) In the market for reserves, a lower discount rate
- A) shifts the supply curve of reserves to the left.
  - B) has no effect on the reserves supply curve.
  - C) shortens the vertical section of the reserves supply curve.
  - D) shifts the supply curve of reserves to the right.
  - E) lengthens the vertical section of the reserves supply curve.

Answer: C

- 16) The Baumol-Tobin analysis suggests that a decrease in the brokerage fee for buying and selling bonds will cause the demand for money to \_\_\_\_\_ and the demand for bonds to \_\_\_\_\_.
- A) increase; increase
  - B) decrease; increase
  - C) decrease; decrease
  - D) increase; decrease

Answer: B

- 17) If the money supply is 600 and nominal income is 3,000, the velocity of money is
- A) 50.
  - B) 1/5.
  - C) 5.
  - D) undefined.

Answer: C

- 18) The \_\_\_\_\_ describes points for which the goods market is in equilibrium.
- A) consumption function
  - B) IS curve
  - C) investment schedule
  - D) LM curve

Answer: B

- 19) An increase in discount loans by the Fed leads to
- A) a decline in the monetary base.
  - B) an increase in the money supply.
  - C) a decline in the money supply.
  - D) all of the above.
  - E) only A and B of the above.

Answer: B

- 20) Other things equal, an increase in the required reserve ratio will result in a(n) \_\_\_\_\_ in M1 and a(n) \_\_\_\_\_ in M2.
- A) increase; increase
  - B) increase; decrease
  - C) decrease; increase
  - D) decrease; decrease

Answer: D

21) Which of the following are entities of the Federal Reserve System?

- A) Federal Reserve Banks
- B) The FOMC
- C) The Board of Advisors
- D) Only A and B of the above are Federal Reserve entities

Answer: D

22) The sum of vault cash and bank deposits at Federal Reserve banks is called

- A) discount loans.
- B) reserves.
- C) the money supply.
- D) the monetary base.

Answer: B

23) In the simple deposit expansion model, a decline in checkable deposits of \$500 when the required reserve ratio is equal to 20 percent implies that the Fed

- A) purchased \$100 in government bonds.
- B) sold \$250 in government bonds.
- C) sold \$50 in government bonds.
- D) sold \$100 in government bonds.

Answer: D

24) The money multiplier is smaller than the simple deposit multiplier when

- A) the excess reserves ratio is zero.
- B) the excess reserves ratio is greater than zero.
- C) the currency-checkable deposit ratio is zero.
- D) only A and B of the above are true.

Answer: B

25) Money supply models tend to focus on the monetary base rather than on reserves since

- A) Fed actions have a more predictable effect on the monetary base.
- B) Fed actions in general have little effect on reserves but have a predictable effect on the monetary base.
- C) Fed actions have no effect on reserves but have a predictable effect on the monetary base.
- D) none of the above.

Answer: A

26) Although it enjoys a high degree of autonomy, the Fed is still subject to the influence of Congress because

- A) Congress can pass legislation that would restrict the Fed independence.
- B) Congress can remove members of the Board of Governors on a whim.
- C) Congress can withhold the Fed appropriations.
- D) of all of the above.

Answer: A

- 27) When the Fed extends discount loans,
- A) bank reserves decline, but the monetary base remains unchanged.
  - B) bank reserves increase, but the monetary base declines.
  - C) both bank reserves and the monetary base increase.
  - D) both bank reserves and the monetary base decline.
  - E) bank reserves increase, but the monetary base remains unchanged.

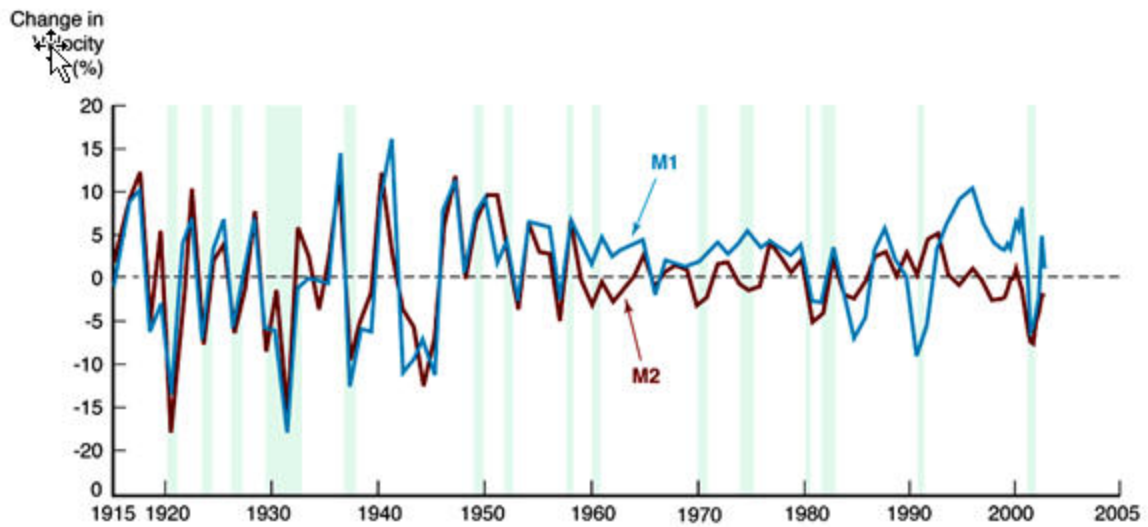
Answer: C

- 28) As aggregate output rises, the demand for money \_\_\_\_\_ and the interest rate \_\_\_\_\_, so that money demanded equals money supplied and the money market is in equilibrium.
- A) increases; falls
  - B) increases; rises
  - C) decreases; falls
  - D) decreases; rises

Answer: B

- 29) On May 16, 2000, the Fed Funds rate was the same as the discount rate. The Fed raised the discount rate, \_\_\_\_\_ the vertical section of the reserves \_\_\_\_\_ curve, causing the federal funds rate to \_\_\_\_\_.
- A) shortening; demand; fall
  - B) shortening; supply; fall
  - C) lengthening; supply; rise
  - D) lengthening; demand; rise
  - E) lengthening; supply; fall

Answer: C



30) Evidence since 1915 indicates that velocity has

- A) trended downward since 1950 due to technological and financial innovations.
- B) fluctuated too much in the short run to be viewed as a constant.
- C) grown at a fairly constant rate, even in the short run.
- D) done none of the above.

Answer: B