

Quiz 4: Deposit Creation, Market for Reserves, Demand for Money.

Name \_\_\_\_\_

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

**Instructions: Please mark the answers to the multiple choice questions on the exam paper in the space provided and turn the exam in at the end.**

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

- 1) Federal reserve assets include 1) \_\_\_\_\_
  - A) government securities.
  - B) discount loans.
  - C) currency in circulation.
  - D) all of the above.
  - E) both A and B of the above.
  
- 2) The interest rate the Fed charges banks borrowing from the Fed is the 2) \_\_\_\_\_
  - A) discount rate.
  - B) federal funds rate.
  - C) Treasury bill rate.
  - D) mortgage rate.
  - E) prime rate.
  
- 3) When the Fed buys \$100 worth of bonds from the First National Bank, reserves in the banking system 3) \_\_\_\_\_
  - A) increase by more than \$100.
  - B) increase by \$100.
  - C) decrease by \$100.
  - D) decrease by more than \$100.
  
- 4) If a member of the nonbank public sells a government bond to the Federal Reserve in exchange for currency, the monetary base will \_\_\_\_\_, but reserves will \_\_\_\_\_. 4) \_\_\_\_\_
  - A) fall; remain unchanged
  - B) rise; remain unchanged
  - C) remain unchanged; fall
  - D) remain unchanged; rise
  
- 5) The effect of open market operations on \_\_\_\_\_ is much more uncertain than the effect on \_\_\_\_\_. 5) \_\_\_\_\_
  - A) reserves; reserves
  - B) high-powered money; reserves
  - C) high-powered money; high-powered money
  - D) reserves; high-powered money
  
- 6) If reserves in the banking system increase by \$100, then checkable deposits will increase by \$500 in the simple model of deposit creation when the required reserve ratio is 6) \_\_\_\_\_
  - A) 0.05.
  - B) 0.20
  - C) 0.01.
  - D) 0.10.
  
- 7) If the required reserve ratio is 20 percent and the Fed increases reserves by \$100, checkable deposits can potentially expand by 7) \_\_\_\_\_
  - A) \$1,000.
  - B) \$250.
  - C) \$500.
  - D) \$100.

- 8) If a bank has excess reserves of \$5,000 and demand deposit liabilities of \$80,000, and if the reserve requirement is 20 percent, then the bank has actual reserves of \_\_\_\_\_ 8) \_\_\_\_\_  
 A) \$21,000.                      B) \$26,000.                      C) \$11,000.                      D) \$20,000.
- 9) Decisions by depositors to increase their holdings of \_\_\_\_\_, or of banks to hold \_\_\_\_\_ will result in a \_\_\_\_\_ expansion of deposits than the simple model predicts. 9) \_\_\_\_\_  
 A) currency; required reserves; larger                      B) deposits; required reserves; larger  
 C) currency; excess reserves; smaller                      D) deposits; excess reserves; smaller
- 10) If the required reserve ratio is 10 percent, currency in circulation is \$400 billion, checkable deposits are \$1000 billion, and excess reserves total \$1 billion, then the currency ratio is \_\_\_\_\_ 10) \_\_\_\_\_  
 A) 0.50.                      B) 0.40.                      C) 0.25.                      D) 0.05.
- 11) If the required reserve ratio is 15 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 \_\_\_\_\_ 11) \_\_\_\_\_  
 A) 0.651.                      B) 2.5.                      C) 1.67.                      D) 2.3.
- 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 supply is approximately \_\_\_\_\_ 12) \_\_\_\_\_  
 A) \$1200.                      B) \$8400.                      C) \$1200.8.                      D) \$8000.
- 13) Factors that cause the excess reserves ratio to rise include: \_\_\_\_\_ 13) \_\_\_\_\_  
 A) a rise in expected deposit outflows.  
 B) a decline in market interest rates.  
 C) a rise in market interest rates.  
 D) only A and B of the above.  
 E) only A and C of the above.
- 14) The money supply is \_\_\_\_\_ related to the nonborrowed monetary base, and \_\_\_\_\_ related to the level of discount loans. \_\_\_\_\_ 14) \_\_\_\_\_  
 A) negatively; not  
 B) positively; positively  
 C) negatively; negatively  
 D) positively; negatively  
 E) not; not
- 15) If the money supply is 500 and nominal income is 3,000, the velocity of money is \_\_\_\_\_ 15) \_\_\_\_\_  
 A) 6.                      B) 60.                      C) 1/6.                      D) undefined.
- 16) The classical economists believed that if the quantity of money doubled, \_\_\_\_\_ 16) \_\_\_\_\_  
 A) prices would remain constant.                      B) output would double.  
 C) prices would double.                      D) prices would fall.
- 17) If initially the money supply is \$ 1 trillion, velocity is 5, the price level is 1, and real GDP is \$5 trillion, an increase in the money supply to \$2 trillion, would in the long run \_\_\_\_\_ 17) \_\_\_\_\_  
 A) increase the price level to 2.  
 B) increase real GDP to \$10 trillion.  
 C) causes velocity to fall to 2.5.  
 D) increase the price level to 2 and velocity to 10.  
 E) has no effect on any of the other variables.

- 18) Fisher's quantity theory of money suggests that the demand for money 18) \_\_\_\_\_
- A) is purely a function of income, and interest rates have no effect on the demand for money.
  - B) is purely a function of government spending, and interest rates have no effect on the demand for money.
  - C) is purely a function of expectations, and income has 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.
- 19) Of the three motives for holding money suggested by Keynes's, which did he believe to be the most sensitive to interest rates? 19) \_\_\_\_\_
- A) The precautionary motive
  - B) The speculative motive
  - C) The altruistic motive
  - D) The transactions motive
- 20) In the Baumol-Tobin analysis of transactions demand for money, either an increase in \_\_\_\_\_ or a decrease in \_\_\_\_\_ increases money demand. 20) \_\_\_\_\_
- A) brokerage fee; income
  - B) interest rate; income
  - C) interest rates; brokerage fee
  - D) income; interest rate
  - E) income; brokerage fee