

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
- A) government securities.
  - B) discount loans.
  - C) currency in circulation.
  - D) all of the above.
  - E) both A and B of the above.

Answer: E

- 2) The interest rate the Fed charges banks borrowing from the Fed is the
- A) discount rate.
  - B) federal funds rate.
  - C) Treasury bill rate.
  - D) mortgage rate.
  - E) prime rate.

Answer: A

- 3) When the Fed buys \$100 worth of bonds from the First National Bank, reserves in the banking system
- A) increase by more than \$100.
  - B) increase by \$100.
  - C) decrease by \$100.
  - D) decrease by more than \$100.

Answer: B

- 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 \_\_\_\_\_.
- A) fall; remain unchanged
  - B) rise; remain unchanged
  - C) remain unchanged; fall
  - D) remain unchanged; rise

Answer: B

- 5) The effect of open market operations on \_\_\_\_\_ is much more uncertain than the effect on \_\_\_\_\_.
- A) reserves; reserves
  - B) high-powered money; reserves
  - C) high-powered money; high-powered money
  - D) reserves; high-powered money

Answer: D

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

Answer: B

- 7) If the required reserve ratio is 20 percent and the Fed increases reserves by \$100, checkable deposits can potentially expand by
- A) \$1,000.                      B) \$250.                      C) \$500.                      D) \$100.

Answer: C

- 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
- A) \$21,000.                      B) \$26,000.                      C) \$11,000.                      D) \$20,000.

Answer: A

- 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.
- A) currency; required reserves; larger                      B) deposits; required reserves; larger  
C) currency; excess reserves; smaller                      D) deposits; excess reserves; smaller

Answer: C

- 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
- A) 0.50.                      B) 0.40.                      C) 0.25.                      D) 0.05.

Answer: B

- 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
- A) 0.651.                      B) 2.5.                      C) 1.67.                      D) 2.3.

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 supply is approximately
- A) \$1200.                      B) \$8400.                      C) \$1200.8.                      D) \$8000.

Answer: A

- 13) Factors that cause the excess reserves ratio to rise include:
- 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.

Answer: D

- 14) The money supply is \_\_\_\_\_ related to the nonborrowed monetary base, and \_\_\_\_\_ related to the level of discount loans.
- A) negatively; not  
B) positively; positively  
C) negatively; negatively  
D) positively; negatively  
E) not; not

Answer: B

