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

1) The central bank for the United States is
   C) Bank of America. D) the Congressional Bank.

2) Which of the following is NOT a function of the Fed?
   A) supervising member banks  
   B) holding reserves for depository institutions
   C) regulating the quantity of money 
   D) lending funds to creditworthy private firms

3) The Board of Governors is the
   A) Presidents of the 12 regional banks of the Federal Reserve.
   B) 12-member monetary policy committee of the Federal Reserve.
   C) 50-member organization of state banking regulators of the Federal Reserve.
   D) 7-member group that oversees the Federal Reserve.

4) The Federal Open Market Committee (FOMC)
   A) has no effect on the quantity of money.
   B) is headed by the Senate majority leader.
   C) consists of the ranking members of the House of Representatives.
   D) makes decisions on the Fed's purchase and sale of government securities.

5) The fraction of deposits that banks must keep on hand or at the Federal Reserve is called the
   A) deposit multiplier.   B) money multiplier.
   C) required reserve ratio. D) discount rate.

6) The tools at the disposal of the Fed for changing the quantity of money do NOT include
   A) open market operations.
   B) increasing the number of commercial banks.
   C) changing the required reserve ratio.
   D) changing discount rates.

7) When the Fed wants to undertake open market operations, it
   A) can require all member banks to buy from or sell to it.
   B) can require all commercial banks to buy from or sell to it.
   C) buys from or sells to the U.S. Treasury.
   D) buys or sells government securities.

8) The monetary base is
   A) the money borrowed by banks from other banks.
   B) Federal Reserve notes minus the banks’ deposits at the Federal Reserve.
   C) the sum of Federal Reserve notes and banks’ deposits at the Federal Reserve.
   D) banks’ deposits at the Federal Reserve minus Federal Reserve notes.
9) Monetary policy has several tools and the one used more frequently is
   A) changing required reserve ratios.
   B) changing the discount rate.
   C) open market operations.
   D) changing borrowing at commercial banks.

10) To decrease the quantity of money
   A) the Federal Reserve could decrease the required reserve ratio.
   B) commercial banks could sell government securities.
   C) commercial banks could increase their loans.
   D) the Federal Reserve could increase the discount rate.

11) When the Fed purchases government securities on the open market, bank reserves _______
    and the monetary base _______.
    A) increase; increases  B) increase; decreases
    C) decrease; decreases  D) decrease; increases

12) When the Fed buys one million dollars in government securities from a commercial bank,
    A) the Fed’s total assets decrease by one million dollars.
    B) there is a change in the composition of the commercial bank’s assets: reserves increase and
       government securities decrease.
    C) the commercial bank’s total assets increase by one million dollars.
    D) All of the above answers are correct.

13) If the Federal Reserve increases the monetary base by $10 million, eventually the quantity of
    money will
    A) increase by $10 million.  B) decrease by $10 million.
    C) decrease by more than $10 million.  D) increase by more than $10 million.

14) The quantity of money that people choose to hold is
    A) negatively related to the price level.
    B) positively related to the availability of ATM machines.
    C) positively related to the interest rate.
    D) positively related to real GDP.

15) If the price level rises, the quantity of
    A) real of money people demand increases.
    B) nominal money people demand decreases.
    C) nominal money people demand increases.
    D) real money people demand decreases.

16) The opportunity cost of holding money balances rather than other assets is
    A) forgone liquidity.  B) forgone consumption.
    C) the interest rate.  D) the price level.

17) If the interest rate is low, people will want to hold a lot of money balances because the
    A) price of bonds is expected to go up.
    B) opportunity cost of holding money is high.
    C) opportunity cost of holding money is low.
    D) Both answers B and C are correct.
18) When real GDP increases, people demand
   A) less real money.
   B) more real money.
   C) the same quantity of real money.
   D) more money in nominal terms but less in real terms.

19) The effect of an increase in the interest rate on the demand for money curve is to
   A) shift the demand for money curve leftward.
   B) create a movement downward along the demand for money curve.
   C) shift the demand for money curve rightward.
   D) create a movement upward along the demand for money curve.

20) Which of the following is a true statement?
   A) The prices of bonds increase when there is inflation.
   B) The prices of bonds are unrelated to the interest rate.
   C) The prices of bonds are directly related to the interest rate.
   D) The prices of bonds are inversely related to the interest rate.

21) If you buy a bond for $1,000 that pays 5 percent and the interest rate rises to 8 percent, then the price of the bond
   A) has fallen.
   B) might rise or fall depending on whether the federal funds rate changed.
   C) has risen.
   D) is still $1,000.

22) In the above figure, if the interest rate is 4 percent, people
   A) buy bonds so as to have a better store of value.
   B) petition the Fed to tighten the quantity of money.
   C) buy stocks, because stocks are more liquid than currency.
   D) sell bonds so as to convert them into cash.
23) If the Fed wants to raise interest rates it will
   A) sell bonds in order to decrease the quantity of money.
   B) buy bonds in order to decrease the quantity of money.
   C) buy bonds in order to increase the quantity of money.
   D) sell bonds in order to increase the quantity of money.

24) A decrease in the quantity of money
   A) lowers the interest rate, increases investment, and increases aggregate demand.
   B) decreases the interest rate, investment, and aggregate demand.
   C) raises the interest rate, decreases investment, and decreases aggregate demand.
   D) increases interest rates, investment, and aggregate demand.

25) If the Federal Reserve is seeking to increase aggregate demand in the short run, it should
   A) sell government securities.      B) increase the quantity of money.
   C) raise the required reserve ratio. D) raise the discount rate.
Answer Key
Testname: MACRO QUIZ 4

1) A
2) D
3) D
4) D
5) C
6) B
7) D
8) C
9) C
10) D
11) A
12) B
13) D
14) D
15) C
16) C
17) C
18) B
19) D
20) D
21) A
22) D
23) A
24) C
25) B