What Is Money?

1) The functions of money are
   A) medium of exchange and the ability to buy goods and services.
   B) medium of exchange, unit of account, and means of payment.
   C) pricing, contracts, and means of payment.
   D) medium of exchange, unit of account, and store of value.

Answer: D

2) Which of the following does NOT describe a function of money?
   A) a unit of account.
   B) a hedge against inflation.
   C) a medium of exchange.
   D) a store of value.

Answer: B

3) Which of the following is a primary function of money?
   A) to serve as a unit of account.
   B) to serve as an encouragement to work.
   C) to reduce the burden of excessive imports.
   D) to raise funds for the government.

Answer: A

Topic: Medium of Exchange
Skill: Recognition*

4) Barter is
   A) another type of money.
   B) printing too much money.
   C) the exchange of goods and services directly for other goods and services.
   D) the exchange of goods and services for any type of money.

Answer: C

5) The most direct way in which money eliminates the need for a double coincidence of wants is through its use as a
   A) medium of exchange.
   B) standard of deferred payment.
   C) store of value.
   D) unit of account.

Answer: A

6) In a barter system, we would see
   A) many different units of money.
   B) money and goods exchanged for each other.
   C) wide-spread depository institutions.
   D) goods traded directly for other goods and services.

Answer: D

* This is Chapter 26 in Economics.
7) When you buy a hamburger for lunch, you are using money as a
A) store of value.
B) standard of deferred payment.
C) medium of exchange.
D) unit of accounting.
Answer: C

8) The unit of account function occurs when money serves as a
A) means of payment.
B) medium of exchange.
C) pricing mechanism.
D) double coincidence of wants.
Answer: C

9) Which of the following applies to the use of money as a unit of account?
I. A unit of account is an agreed measure for stating the prices of goods and services.
II. Using money as a unit of account creates a simplified pricing system.
III. Economies choose many goods as units of account.
A) I only.
B) II only.
C) I and III.
D) I and II.
Answer: D

10) A $25,000 price tag on a new car is an example of money as
A) medium of exchange.
B) a unit of account.
C) a store of value.
D) a time deposit.
Answer: B
Topic: Money in the United States Today, M1
Skill: Recognition*
15) M1 is a measure of
A) money and includes both currency and checking deposits.
B) liquidity in which the most liquid asset is money.
C) money and includes both savings deposits and currency.
D) money and includes both savings deposits and money market mutual funds.
Answer: A

Topic: Money in the United States Today, M1
Skill: Recognition
16) Which of the following is NOT included in the M1 definition of money?
A) Currency held outside banks.
B) Time deposits.
C) Traveler’s checks.
D) Checking deposits at savings and loans.
Answer: B

Topic: Money in the United States Today, M1
Skill: Recognition*
17) The largest component of M1 is
A) currency.
B) checking deposits.
C) coins.
D) savings deposits.
Answer: B

Topic: Money in the United States Today, M2
Skill: Recognition
18) The definition of M2 includes
A) M1.
B) savings deposits.
C) time deposits.
D) All of the above.
Answer: D

Topic: Money in the United States Today, M2
Skill: Conceptual*
19) Which of the following is NOT included in the M2 definition of money?
A) Currency held by banks.
B) Money market mutual fund balances.
C) Savings deposits.
D) Checkable deposits.
Answer: A

Topic: Money in the United States Today, M1 and M2
Skill: Conceptual*
20) Comparing M1 and M2 we know that
A) M1 is larger because it contains currency.
B) M2 is approximately equal to M1.
C) M2 is larger because it contains M1 and other assets.
D) M2 is larger because it contains more liquid assets than does M1.
Answer: C

Topic: Liquidity
Skill: Recognition
21) Liquidity is the
A) speed with which the price of an asset changes as its intrinsic value changes.
B) inverse of the velocity of money.
C) same as the velocity of money.
D) ease with which an asset can be converted into money.
Answer: D

Topic: Liquidity
Skill: Recognition*
22) Liquidity is the
A) degree to which an asset acts as money without a loss of value.
B) ease with which an asset can be converted into a means of payment with little loss of value.
C) degree to which money can be converted into an asset with little loss of value.
D) ease with which credit cards are accepted as a means of payment.
Answer: B

Topic: Liquidity
Skill: Recognition
23) An individual wanting the most liquid asset possible will hold
A) currency.
B) a savings account.
C) checkable deposits at a bank.
D) U.S government bonds.
Answer: A
24) Given the list of assets below, which is the most liquid?
   A) $500 worth of General Motors common stock.
   B) $500 worth of General Motors bonds.
   C) a $500 traveler’s check.
   D) a one-ounce gold coin.
   Answer: C

25) Checks are
   A) money, as are credit cards.
   B) not money, but credit cards are.
   C) money, but credit cards are not.
   D) not money, and neither are credit cards.
   Answer: D

26) Checks are
   A) the largest component of the money supply.
   B) not money.
   C) only part of M2 but not part of M1.
   D) part of M1 but not part of M2.
   Answer: B

27) Checks ____ money and checking deposits ____ money.
   A) are; are
   B) are; are not
   C) are not; are
   D) are not; are not
   Answer: C

28) Checks are NOT money because they
   A) are issued by banks, not by the government.
   B) are merely instructions to transfer money.
   C) have value in exchange but little intrinsic value.
   D) are not backed by either gold or silver.
   Answer: B

29) Credit cards are
   A) money but are not a large part of the money supply.
   B) not money.
   C) money and are the largest part of the money supply.
   D) not money because they are not made of paper.
   Answer: B

30) Using a credit card can best be likened to
   A) taking out a loan.
   B) a barter exchange.
   C) using any other form of money because you immediately get to take the goods home.
   D) writing a check on your demand deposit account.
   Answer: A

31) Credit cards are NOT money because they
   A) have a value in exchange but little intrinsic value.
   B) are not issued by the government.
   C) do not serve as a unit of account.
   D) are ID cards that make borrowing easier.
   Answer: D

32) Which of the following institutions is NOT a depository institution?
   A) The U.S. Treasury.
   B) A commercial bank.
   C) A money market mutual fund.
   D) A thrift institution, such as a savings and loan association.
   Answer: A
33) A firm that takes deposits from households and firms and makes loans to other households and firms is a
A) usurer.
B) depository institution.
C) credit company.
D) stockbroker.
Answer: B

34) A depository institution is best defined as
A) as the lender of last resort.
B) an insurance agency, such as the FDIC.
C) the most powerful body within the Federal Reserve.
D) as an institution that accepts deposits and makes loans.
Answer: D

35) The major role of a commercial bank is to
A) make mortgage loans.
B) sell shares and use the proceeds to buy stocks.
C) receive deposits and make loans.
D) restrain the growth of the quantity of money.
Answer: C

36) Your checking account is
A) an asset for you and a liability for your bank.
B) a liability for you and an asset for your bank.
C) an asset for both you and your bank.
D) a liability for both you and your bank.
Answer: A

37) Commercial banks do not
A) buy U.S. government Treasury bills.
B) accept deposits from their customers.
C) make loans to creditworthy individuals and businesses.
D) determine what assets are money.
Answer: D
CHAPTER 10

**Topic: Commercial Banks**

**Skill: Recognition**

42) Which of the following balance sheet items is an asset of a commercial bank?

A) the bank’s borrowings from the Federal Reserve
B) the public’s deposits with the bank
C) certificates of deposit the public has with the bank
D) the bank’s loans to firms

**Answer: D**

**Topic: Commercial Banks**

**Skill: Recognition**

43) Which of the following is NOT an asset of commercial banks?

A) Vault cash
B) Deposits at Federal Reserve Banks
C) Loans from Federal Reserve Banks
D) U.S. government treasury bills

**Answer: C**

**Topic: Commercial Banks**

**Skill: Conceptual**

44) Of the following, the riskiest assets held by commercial banks are

A) reserves.
B) U.S. government bonds.
C) U.S. government Treasury bills.
D) commercial loans.

**Answer: D**

**Topic: Commercial Banks**

**Skill: Conceptual**

45) An asset category that carries the highest interest rate is

A) checkable deposit accounts.
B) loans.
C) cash in the bank vault.
D) savings deposits.

**Answer: B**

**Topic: Commercial Banks**

**Skill: Conceptual**

46) Which of the following are assets to a bank?

I. U.S. Government Treasury bills
II. Investment securities
III. Consumer loans

A) I and II.
B) I and III.
C) II and III.
D) I, II, and III.

**Answer: D**

**Topic: Banks’ Reserves**

**Skill: Conceptual**

47) A bank’s reserves include

A) the cash in its vault plus the value of its depositors’ accounts.
B) the cash in its vault plus its deposits held at a Federal Reserve bank.
C) the cash in its vault plus any gold held for the bank at Fort Knox.
D) its common stock holdings, the cash in its vault, and any deposits at a Federal Reserve bank.

**Answer: B**

**Topic: Banks’ Reserves**

**Skill: Conceptual**

48) Which of the following statements concerning commercial banks is true?

A) Banks need to maintain cash reserves equal to their deposits.
B) Most banks maintain cash reserves equal to a fraction of deposits.
C) Cash reserves earn the highest rate of return of any asset for a bank.
D) Since the advent of the Federal Reserve, banks do not need to maintain cash reserves.

**Answer: B**

**Topic: Banks’ Reserves**

**Skill: Conceptual**

49) Bank managers lend the excess reserves created when new deposits come in because they want to

A) create new money in the economy.
B) earn a profit.
C) deplete required reserves.
D) deplete desired reserves.

**Answer: B**

**Topic: Thrift Institutions**

**Skill: Recognition**

50) Examples of thrift institutions include

A) savings deposits and checking deposits.
B) commercial banks, savings and loan associations, and insurance companies.
C) savings and loan associations, savings banks, and credit unions.
D) money market mutual funds, commercial banks, and credit unions.

**Answer: C**
Topic: Credit Union  
Skill: Recognition*  
51) A credit union is  
A) a combination of credit card corporations.  
B) an depository institution owned by depositors  
who are members of a particular group.  
C) a thrift institution that issues credit cards.  
D) a commercial bank owned by its depositors.  
Answer: B

Topic: Money Market Mutual Funds  
Skill: Recognition  
52) Money market mutual funds invest in  
A) residential mortgages.  
B) commercial real estate.  
C) long-term government securities.  
D) highly liquid assets.  
Answer: D

Topic: Money Market Mutual Funds  
Skill: Conceptual  
53) A money market mutual fund is  
A) essentially the same as a demand deposit ac-
count.  
B) a time deposit of $100,000 or less.  
C) a time deposit of more than $100,000.  
D) a depository institution that issues shares and  
buys securities such as U.S. Treasury bills.  
Answer: D

Topic: The Economic Functions of Depository  
institutions  
Skill: Recognition*  
54) Depository institutions  
A) make profit from the spread between the interest  
rate they pay on deposits and the interest rate  
they receive on loans.  
B) earn profit according to how much the Federal  
Reserve pays them.  
C) earn money by charging the government for  
their services.  
D) earn zero profit but receive compensation by the  
government because there services are so valu-
able.  
Answer: A

Topic: Economic Functions of Depository  
institutions  
Skill: Conceptual  
55) Which of the following is NOT a service of de-
pository institutions?  
A) Minimizing the cost of obtaining funds.  
B) Accepting reserve account deposits.  
C) Pooling risk.  
D) Creating liquidity.  
Answer: B

Topic: The Economic Functions of Depository  
institutions  
Skill: Recognition*  
56) Liquidity can  
A) not be created.  
B) be created by borrowing short and lending long.  
C) only be created by the government.  
D) be created by borrowing long and lending short.  
Answer: B

Topic: The Economic Functions of Depository  
institutions  
Skill: Recognition  
57) The practice of borrowing short and lending long  
A) pools risk.  
B) minimizes the cost of monitoring borrowers.  
C) creates liquidity.  
D) All of the above answers are correct.  
Answer: C

Topic: The Economic Functions of Depository  
institutions  
Skill: Recognition  
58) Which of the following is NOT an economic  
benefit of depository institutions?  
A) They borrow long and lend short  
B) They create liquidity  
C) They pool risk  
D) They reduce the cost of monitoring borrowers  
Answer: A
**Topic: The Economic Functions of Depository institutions**
**Skill: Recognition**

59) Liquidity is
A) the property of an asset being instantly convertible into a means of payment with little loss in value.
B) the degree of movement in an asset’s interest rate.
C) the same thing as a checking deposit.
D) the net flow of gold into the U.S. Treasury.

**Answer: A**

**Topic: Economic Functions of Depository institutions**
**Skill: Conceptual**

60) Depository institution create liquidity when they
A) buy assets that are liquid.
B) borrow short and lend long.
C) have liabilities that are illiquid.
D) borrow long and lend short.

**Answer: B**

**Topic: Economic Functions of Depository institutions**
**Skill: Conceptual**

61) Which of the following allow banks to minimize the cost to a business of borrowing?
I. Borrowing long and lending short.
II. Raising funds from a large number of depositors.
III. Creating money by lending all their reserves.

A) I only.
B) II only.
C) I and III.
D) II and III.

**Answer: B**

**Topic: Economic Functions of Depository institutions**
**Skill: Conceptual**

62) When banks use specialized resources to monitor borrowers, they are
A) pooling risk.
B) lowering the cost of creating liquidity.
C) minimizing the cost of assessing borrowers’ creditworthiness.
D) lending to only high-risk borrowers.

**Answer: C**

**Topic: Economic Functions of Depository institutions**
**Skill: Recognition**

63) The risk of making a loan is
A) earning profits that are too high and cause higher taxes.
B) the risk that lender does not pay.
C) the risk that the borrower does not pay.
D) called “default risk” when taxes are not paid.

**Answer: C**

**Topic: Economic Functions of Depository institutions**
**Skill: Recognition**

64) Pooling of risk occurs when depository institutions
A) make assets more liquid.
B) specialize in loaning only to good borrowers.
C) bring lenders together.
D) lend to a variety of different borrowers.

**Answer: D**

**Topic: Economic Functions of Depository institutions**
**Skill: Recognition**

65) When a depository institution pools risk, it
A) buys short and lends long.
B) borrows reserves from the Federal Reserve.
C) spreads loan losses across many depositors so that no one depositor faces a high degree of risk.
D) makes loans to just one firm.

**Answer: C**

**Topic: Economic Functions of Depository institutions**
**Skill: Conceptual**

66) By borrowing money from many depositors and lending money to a variety of borrowers, depository institutions
A) spread risk efficiently.
B) can expose themselves to a great deal of risk.
C) decrease the quantity of money.
D) move money from M1 to M2.

**Answer: A**
67) Which of the following regulations do NOT apply to banks as depository institutions?
   A) equity capital requirements
   B) lending rules
   C) zero profit rule
   D) reserve requirements
   **Answer: C**

68) A rule specifying the minimum amount of an owner’s own financial resources that must be put into a depository institution is called a
   A) reserve requirement.
   B) deposit requirement.
   C) lending requirement.
   D) equity capital requirement.
   **Answer: D**

69) A rule specifying the minimum percentage of deposits that must be held in currency or other safe, liquid assets is called a
   A) reserve requirement.
   B) deposit requirement.
   C) lending requirement.
   D) equity capital requirement.
   **Answer: A**

70) A regulation that sets the minimum percentage of deposits that must be held in currency or other safe, liquid assets is known as a
   A) equity capital requirement.
   B) reserve requirement.
   C) deposit rule.
   D) lending rule.
   **Answer: B**

71) Balance sheet regulations that set depository reserve requirements
   A) establish the minimum amount of an owner’s own resources that must be in the bank.
   B) restrict the types of deposits that a financial institution may accept.
   C) place restrictions on the proportions of different types of loans a bank may make.
   D) set minimum percentages of deposits that must be held as liquid assets.
   **Answer: D**

72) Deposit insurance seeks to reduce the adverse effects of
   A) excessive safety.
   B) banks merging with one another.
   C) excessive financial innovation.
   D) customers losing their deposits if their bank fails.
   **Answer: D**

73) The Federal Deposit Insurance Corporation (FDIC)
   A) has ended bank failures.
   B) ensures that the reserves of member banks never fall below the legal requirement.
   C) insures depositors against bank failure.
   D) was bankrupt as of 2003.
   **Answer: C**

74) The FDIC is the
   A) U.S. central bank.
   B) Federation of District Investments Corporation.
   C) federal agency that insures bank deposits.
   D) Federal Deductions and Investment Corporation.
   **Answer: C**
75) Which of the following apply to the FDIC's deposit insurance policies?
   I. Depository institutions have the option of paying insurance premiums to the FDIC.
   II. The Bank Insurance Fund insures deposits in commercial banks.
   III. The Saving Association Insurance Fund insures deposits in credit unions.
   A) only I is true.
   B) I and II are true.
   C) II and III are true.
   D) I, II, and III are true.
   Answer: C

76) Some economists argue that deposit insurance contributed to problems in the savings and loan industry because
   A) depositors did not withdraw funds from risky S&Ls because depositors' funds were insured.
   B) deposit insurance causes S&L managers to make very low risk loans.
   C) S&L failures were eliminated by deposit insurance.
   D) deposit insurance created incentives for S&Ls to make no loans at all.
   Answer: A

77) Deposit insurance
   A) has only a positive impact on depository institutions.
   B) does not insure deposits of credit unions.
   C) is paid for by taxpayers and not banks or depositors.
   D) can lead depository institutions to make more risky loans.
   Answer: D

78) Some of the balance sheet regulations that banks face include
   A) equity capital requirements.
   B) reserve requirements.
   C) the Riegle-Neal interstate banking regulation.
   D) Both answers A and B are correct.
   Answer: D

79) Equity capital requirements are
   A) reserves that banks must hold in safe assets.
   B) rules covering the types of assets that banks may purchase.
   C) rules covering the types of deposits that banks may offer.
   D) the minimum amount of an owner's financial resources that must be placed in a depository institution.
   Answer: A

80) Reserve requirements are
   A) minimum percentages of deposits that banks must hold in safe assets.
   B) the minimum amount of an owner’s financial resources that must be placed in a depository institution.
   C) rules covering the types of deposits that banks may offer.
   D) rules covering the types of assets that banks may purchase.
   Answer: A

81) Lending rules are
   A) minimum percentages of deposits that banks must hold in safe assets.
   B) the minimum amount of an owner’s financial resources that must be placed in a depository institution.
   C) rules covering the types of deposits that banks may offer.
   D) rules covering the proportions of different types of loans that banks may make.
   Answer: D
82) Which of the following actions was NOT part of the financial deregulation of the 1980s and 1990s?
A) eliminating reserve requirements on all but the smallest banks
B) allowing interest payments on checking accounts
C) permitting interstate branch banking
D) permitting thrift institutions to compete with commercial banks for a wider range of lending business

Answer: A

83) In the 1980s and 1990s,
A) banks were regulated to a much greater extent than ever before.
B) there was little change in the regulations banks faced.
C) banks were generally deregulated.
D) the Riegle-Neal Act was passed, which lead to a modest increase in the regulation banks faced.

Answer: C

84) Financial innovation is
A) the process of turning assets into a more liquid form.
B) the development of new financial products and services.
C) responsible for credit cards being included as part of money.
D) causing a decrease in bank profits.

Answer: B

85) Which of the following is NOT an example of financial market innovation?
B) Widespread use of credit cards.
C) Payment of interest on checking accounts.
D) The creation of variable rate mortgages.

Answer: A

86) The development of new financial products such as NOW accounts and variable rate mortgages has been spurred by all of the following EXCEPT
A) high inflation and high interest rates.
B) new technology in long-distance communication.
C) attempts to circumvent bank regulations such as Regulation Q.
D) decreasing competition from nonbank depository institutions.

Answer: D

87) As a result of financial innovation, which of the following is TRUE?
I. Variable interest rate mortgages were created.
II. The use of credit cards increased.
III. Many money market mutual funds collapsed.
A) I and II.
B) II and III.
C) I and III.
D) I, II, and III.

Answer: A

How Banks Create Money

88) The reserve ratio is a bank’s reserves as a fraction of its
A) total assets.
B) total loans.
C) currency.
D) total deposits.

Answer: D

89) A bank’s required reserves equal its
A) loans divided by the required reserve ratio.
B) loans multiplied by the required reserve ratio.
C) deposits divided by the required reserve ratio.
D) deposits multiplied by the required reserve ratio.

Answer: D
**Topic: Reserves: Actual and Required**

**Skill: Recognition**

90) Excess reserves are

A) desired reserves minus actual reserves.

B) required reserves minus actual reserves.

C) liquidity funds minus actual reserves.

D) actual reserves minus required reserves.

**Answer: D**

**Topic: Reserves and Loans**

**Skill: Conceptual**

91) Banks make additional loans when required reserves

A) exceed actual reserves, a situation of negative excess reserves.

B) are less than actual reserves, a situation of negative excess reserves.

C) exceed actual reserves, a situation of positive excess reserves.

D) are less than actual reserves, a situation of positive excess reserves.

**Answer: D**

**Topic: Reserves and Loans**

**Skill: Conceptual**

92) Whenever actual reserves exceed required reserves, the bank

A) can lend out additional funds.

B) needs to call in loans.

C) will go out of business.

D) must increase the amount of its required reserves by obtaining more cash.

**Answer: A**

**Topic: Reserves and Loans**

**Skill: Conceptual**

93) The banking system in the United States creates money through the combination of excess reserves and

A) banks loaning excess reserves.

B) commodity money.

C) banks’ assets being more than their liabilities.

D) stringent Federal Reserve regulations.

**Answer: A**

**Topic: Reserves and Loans**

**Skill: Analytical**

94) You deposit $4,000 in currency in your checking account. The bank holds 20 percent of all deposits as reserves. As a direct result of your deposit, your bank will create

A) $200 of new money.

B) $800 of new money.

C) $1,600 of new money.

D) $3,200 of new money.

**Answer: D**

**Topic: Reserves and Loans**

**Skill: Analytical**

95) You withdraw $2,000 from your account. Your bank has a desired reserve ratio of 20 percent. This transaction, by itself, will directly reduce

A) the quantity of money by $1,600.

B) deposits by $1,600.

C) the quantity of money by $2,000.

D) deposits by $2,000.

**Answer: D**

**Assets** | **Liabilities**
--- | ---
Reserves $30 | Deposits $1,000
Loans $970 | Total $1,000
Total $1,000 | Total $1,000

**Topic: Reserves: Required and Actual**

**Skill: Analytical**

96) The above table gives the initial balance sheet for Mega Bank. Mega Bank holds no excess reserves. Based on the initial balance sheet, what is the required reserve ratio for Mega Bank?

A) 3 percent.

B) 10 percent.

C) 30 percent.

D) 1.4 percent.

**Answer: A**
97) The above table gives the initial balance sheet for Mega Bank. Barney comes into the bank and deposits $50 of currency into his checking account. The required reserve ratio is 3 percent. After Barney’s deposit, but before any other actions occur, Mega Bank will have excess reserves of
A) $15.00.
B) $33.00.
C) $48.50.
D) $50.00.
Answer: C

98) The above table gives the initial balance sheet for Mega Bank. Barney comes into the bank and deposits $50 of currency into his checking account. The required reserve ratio is 3 percent. After Barney’s deposit, but before any other actions occur, what volume of loans will be made by Mega Bank if the bank wants more profit and holds no excess reserves?
A) $15.00.
B) $33.00.
C) $48.50.
D) $50.00.
Answer: C

The Federal Reserve System

99) The “Fed” is the abbreviation for
A) Congress, the President, and the Supreme Court.
B) the U.S. Treasury.
C) the Federal Council on Economic Activity.
D) the Federal Reserve System.
Answer: D

100) The U.S. central bank is formally called the
A) Federal Central Bank.
B) Federal Reserve System.
C) Open Market Committee.
D) U.S. Treasury.
Answer: B

101) Which of the following is the central bank of the United States?
A) Comptroller of the Currency
B) Treasury Department
C) Federal Reserve System
D) Office of the Budget
Answer: C

102) The Federal Reserve System
A) regulates the nation’s financial institutions.
B) conducts the nation’s monetary policy.
C) Both answers A and B are correct.
D) Neither answer A nor B is correct.
Answer: C

103) The Bank of Japan is Japan’s central bank. As part of its duties, the Bank of Japan would
A) provide banking services to Japan’s citizens and firms.
B) provide banking services to foreigners.
C) adjust the quantity of money in circulation in Japan.
D) change tax rates.
Answer: C

104) As a “central bank,” which of the following is true regarding the Fed?
I. The Fed is a public authority that regulates the nation’s banks.
II. The Fed is not allowed to provide services to commercial banks like Citibank.
III. The Fed is required to provide banking services to private citizens.
A) I.
B) II.
C) I and II.
D) I and III.
Answer: A
105) The Federal Reserve System
A) has officers that are elected, like members of Congress.
B) adjusts the amount of currency in circulation.
C) is headquartered in San Francisco.
D) was recently declared unconstitutional by the Supreme Court.
Answer: B

106) Control of the nation’s quantity of money is handled by
A) Congress.
B) the Federal Reserve System.
C) the President of the United States.
D) Congress, the Federal Reserve System, and all member commercial banks.
Answer: B

107) Monetary policy is conducted
A) only by the Federal Reserve.
B) by the Federal Reserve and the President of the United States.
C) by the Federal Reserve, the President of the United States, and Congress.
D) by the Federal Reserve with veto power residing with the President of the United States.
Answer: A

108) Controlling the quantity of money and interest rates to influence aggregate economic activity is called
A) foreign policy.
B) monetary policy.
C) fiscal policy.
D) bank antitrust policy.
Answer: B

109) The nation is divided into _____ Federal Reserve districts, each having a Federal Reserve Bank.
A) 10
B) 52
C) 12
D) 7
Answer: C

110) Which of the following institutions is not part of the structure of the Federal Reserve system?
A) The Federal Open Market Committee
B) The Federal Reserve Banks
C) The Board of Governors
D) The Federal Government
Answer: D

111) Members of the Federal Reserve System’s Board of Governors
A) are elected for life.
B) hold 14-year staggered terms.
C) are a special subcommittee of the Senate.
D) are elected at large by district banks.
Answer: B

112) This group consists of seven members appointed by the President of the U.S. for 14-year terms:
A) the presidents of the Federal Reserve Banks.
B) the members of the Federal Open Market Committee.
C) the members of the Board of Governors.
D) None of the above answers are correct.
Answer: C
113) The Board of Governors of the Federal Reserve System does NOT
A) consist of seven members with fourteen-year terms.
B) include the presidents of the twelve Federal Reserve Banks.
C) utilize a system of rotations so that a position comes open every two years.
D) consist of members whose appointments have been approved by the Senate.

Answer: B

114) Six of the directors of each Federal Reserve bank are
A) appointed by the President of the United States.
B) appointed by the Fed’s Board of Governors.
C) the state governors in that district.
D) elected by commercial banks in the Federal Reserve district.

Answer: D

115) Three of the directors of each Federal Reserve bank are
A) appointed by the President of the United States.
B) appointed by the Fed’s Board of Governors.
C) the state governors in that district.
D) elected by commercial banks in the Federal Reserve district.

Answer: B

116) The Federal Open Market Committee
A) consists of the Fed chairman and the 12 regional bank presidents.
B) is the main policy-making organ of the Federal Reserve.
C) is headed by the president of the New York Federal Reserve Bank.
D) meets every week to review the state of the economy.

Answer: B

117) Which Federal Reserve Bank president is always on the Federal Open Market Committee?
A) New York.
B) Chicago.
C) St. Louis.
D) Boston.

Answer: A

118) The Federal Open Market Committee of the Federal Reserve System is responsible for
A) maintaining competition among the nation’s commercial banks.
B) determining monetary policy actions.
C) establishing the official price of gold.
D) defining the foreign exchange value of the dollar.

Answer: B

119) The Federal Open Market Committee
A) meets weekly to set Fed policy.
B) has 7 voting members.
C) always includes the president of the Federal Reserve Bank of New York as a member.
D) does not include any members of the Board of Governors.

Answer: C

120) The main policy-making organ of the Federal Reserve System is the
A) Board of Governors.
B) Federal Reserve bank presidents.
C) Federal Open Market Committee.
D) Joint Congressional Committee on Monetary Policy.

Answer: C
CHAPTER 10

Topic: The Structure of the Federal Reserve System
Skill: Recognition
121) The main policy-making body of the Federal Reserve System is the
A) Board of Governors.
B) Federal Open Market Committee.
C) Federal Reserve Banks.
D) member commercial banks.
Answer: B

Topic: The Structure of the Federal Reserve System
Skill: Recognition
122) The main policy designer of the Federal Reserve system is (are) the
A) 12 district banks.
B) President and Congress.
C) Federal Open Market Committee.
D) Council of Economic Advisors.
Answer: C

Topic: The Structure of the Federal Reserve System
Skill: Recognition
123) The main policy making group that makes decisions about the nation’s monetary policy is the
A) Federal Reserve Banks.
B) Federal Open Market Committee.
C) Board of Governors.
D) federal government.
Answer: B

Topic: The Fed’s Power Center
Skill: Conceptual
124) The largest influence on the Fed’s monetary policy actions is
A) distributed equally among the district banks.
B) held by the Board of Governors.
C) held by the chairman of the Board of Governors, who sets the policy agenda.
D) held by the New York Federal Reserve Bank because it implements policy.
Answer: C

Topic: The Fed’s Power Center
Skill: Recognition
125) The current chairman of the Federal Reserve System is
A) Milton Friedman.
B) Paul Volcker.
C) John Keynes.
D) Alan Greenspan.
Answer: D

Topic: The Fed’s Power Center
Skill: Recognition
126) Since 1992, ____ served as chairman of the Federal Reserve.
A) Paul Volcker
B) Alan Greenspan
C) President Clinton and then President Bush
D) the president of the Federal Reserve Bank of New York
Answer: B

Topic: The Fed’s Power Center
Skill: Recognition
127) The chairman of the Federal Reserve’s Board of Governors
A) controls the agenda of the Federal Open Market Committee meetings.
B) is the main point of contact between the Fed and the President of the U.S.
C) receives frequent background briefings on monetary policy issues from a large staff of economists and technical experts.
D) All of the above answers are correct.
Answer: D

Topic: The Fed’s Power Center
Skill: Recognition
128) Most of the day-to-day power in monetary policy decisions lies with
A) the President of the United States
B) the Senate Banking Committee
C) the chairman of the Board of Governors
D) large commercial banks
Answer: C
Topic: The Fed’s Policy Tools  
Skill: Conceptual  
129) Which of the following is a tool that is used by the Fed to control the quantity of money?  
A) open market operations  
B) excess reserves  
C) government purchases multiplier  
D) real interest rates  
Answer: A  

Topic: The Fed’s Policy Tools  
Skill: Conceptual  
130) The most frequently used monetary policy tool is  
A) raising or lowering tax rates.  
B) changing reserve requirements.  
C) changing the discount rate.  
D) buying or selling government securities in the open market.  
Answer: D  

Topic: The Fed’s Policy Tools  
Skill: Recognition  
131) Which of the following is NOT a monetary policy tool of the Federal Reserve?  
A) changes in required reserves  
B) discount rate changes  
C) deposit insurance  
D) open market operations  
Answer: C  

Topic: The Fed’s Policy Tools  
Skill: Recognition  
132) Which of the following is NOT one of the Fed’s monetary policy tools?  
A) the discount rate  
B) the required reserve ratio  
C) the income tax rate  
D) buying and selling U.S. government securities  
Answer: C  

Topic: The Fed’s Policy Tools  
Skill: Recognition  
133) Which of the following tools is NOT a policy tool of the Fed?  
A) the discount rate  
B) the tax rate on interest income  
C) the reserve ratio  
D) open market operations  
Answer: B  

Topic: The Fed’s Policy Tools  
Skill: Recognition  
134) Which of the following is NOT a monetary policy tool?  
A) discount rate  
B) open market operations  
C) required reserve ratio  
D) federal funds rate  
Answer: D  

Topic: The Fed’s Policy Tools  
Skill: Recognition  
135) Which of the following is NOT a policy tool of the Federal Reserve System?  
A) Open market operations.  
B) The tax rate imposed on interest income.  
C) The interest rate charged on loans to member banks.  
D) The amount of required reserves held by member banks.  
Answer: B  

Topic: The Fed’s Policy Tools  
Skill: Conceptual  
136) If the Fed sought to increase the quantity of money then the Fed should  
A) raise the discount rate and buy securities in the open market.  
B) raise the required reserve ratio and sell securities in the open market.  
C) lower the discount rate and raise the required reserve ratio.  
D) lower the discount rate and buy securities in the open market.  
Answer: D  

Topic: The Fed’s Policy Tools  
Skill: Conceptual  
137) What do “increasing the reserve requirement ratio” and “increasing the discount rate” have in common?  
A) Both are ways the Fed can increase the quantity of money.  
B) Both are ways the Fed can decrease the quantity of money.  
C) Both are forms of open market operations.  
D) Both are ways to increase the Fed’s liabilities.  
Answer: B
**Topic: The Fed’s Policy Tools, Required Reserve Ratio**

**Skill: Recognition**

138) The minimum percentage of deposits that a depository institution must hold and cannot use for lending is known as the

A) minimum rate.
B) required reserve ratio.
C) money multiplier.
D) discount rate.

**Answer: B**

**Topic: The Fed’s Policy Tools, Required Reserve Ratio**

**Skill: Recognition**

139) The required reserve ratio ranges from

A) 0 to 3 percent.
B) 0 to 7 percent.
C) 3 to 30 percent.
D) 0 to 10 percent.

**Answer: D**

**Topic: The Fed’s Policy Tools, Discount Rate**

**Skill: Recognition**

140) The discount rate is the interest rate

A) that banks charge their best customers.
B) that the Fed charges on loans of reserves to commercial banks.
C) on interbank lending.
D) that bank insurers pay on insured deposits.

**Answer: B**

**Topic: The Fed’s Policy Tools, Discount Rate**

**Skill: Recognition**

141) The discount rate is the interest rate that

A) the Federal Reserve charges when it loans reserves to its member banks.
B) is the lowest rate that banks will charge when lending to their best customers.
C) the Federal Reserve charges when it loans to the U.S. Government.
D) banks charge when they lend to each other.

**Answer: A**

**Topic: The Fed’s Policy Tools, Discount Rate**

**Skill: Recognition**

142) The discount rate is the interest rate

A) paid on time deposits.
B) paid on funds banks borrow from other banks.
C) paid on funds that banks borrow from the Federal Reserve.
D) that banks charge their “best” customers.

**Answer: C**

**Topic: The Fed’s Policy Tools, Discount Rate**

**Skill: Conceptual**

143) The ____ rate is the interest rate at which the Fed lends ____ to commercial banks.

A) discount rate; reserves
B) discount rate; gold
C) federal funds rate; deposits
D) federal funds rate; reserves

**Answer: A**

**Topic: The Fed’s Policy Tools, Open Market Operations**

**Skill: Conceptual**

144) An open market operation involves

A) the Federal Reserve’s purchase or sale of government securities.
B) the issuance of new corporate stock.
C) the changing of federal income tax rates.
D) raising the debt limit of the United States.

**Answer: A**

**Topic: The Fed’s Policy Tools, Open Market Operations**

**Skill: Recognition**

145) The Federal Reserve’s purchase or sale of government securities

A) is done less frequently than any of the Fed’s other monetary policy tools.
B) will have a negative impact on the international capital account of the United States.
C) is called an open market operation.
D) is an example of using the Fed’s discount window.

**Answer: C**
146) Most frequently, the Federal Reserve implements monetary policy by
A) conducting open market operations.
B) changing the discount rate.
C) changing the required reserve ratio.
D) none of the above.
Answer: A

147) The largest asset on the Fed’s balance sheet is
A) U.S. government securities.
B) Federal Reserve notes.
C) loans to banks.
D) gold and foreign exchange.
Answer: A

148) Which of the following statements about the Fed’s balance sheet is correct?
A) Federal Reserve notes are an asset to the Federal Reserve.
B) Gold is a liability to the Federal Reserve.
C) Foreign exchange is an asset to the Federal Reserve.
D) Both answers A and C are correct.
Answer: C

149) Which of the following is NOT an asset of the Federal Reserve?
A) gold
B) government bonds
C) loans to banks
D) Federal Reserve notes
Answer: D

150) Which of the following is NOT an asset of the Federal Reserve System?
A) Gold and foreign exchange
B) Bank’s deposits at Federal Reserve Banks
C) U.S. government securities
D) Loans to banks
Answer: B

151) The Fed’s liabilities include
A) only banks’ deposits.
B) only Federal Reserve notes in circulation.
C) both banks’ deposits and Federal Reserve notes in circulation.
D) loans to banks.
Answer: C

152) The largest liability on the Federal Reserve’s balance sheet is
A) gold and foreign exchange.
B) U.S. government securities.
C) loans to banks.
D) Federal Reserve notes.
Answer: D

153) When bank notes were first invented, they were
A) convertible to gold on demand.
B) not convertible to any commodity.
C) an asset to the issuer.
D) a liability to the bearer.
Answer: A

154) The monetary base is the sum of
A) U.S. Treasury notes and other government securities.
B) Federal Reserve notes, coins, and banks’ deposits at the Fed.
C) foreign and domestic deposits at the Fed.
D) gold holdings and U.S. Treasury deposits at the Fed.
Answer: B

155) Which of the following is NOT a part of the monetary base?
A) Chemical Bank’s deposits of reserves at the Fed.
B) First Bank’s required reserves held at the Federal Reserve.
C) Federal Reserve notes in circulation.
D) U.S. government securities owned by the Fed.
Answer: D
156) The monetary base does NOT include
A) Federal Reserve notes.
B) bank deposits at the Fed.
C) checking accounts at commercial banks.
D) cash in vaults at commercial banks.
Answer: C

157) Which of the following is NOT part of the monetary base?
A) Federal Reserve notes
B) bank deposits at the Fed
C) the public’s checking deposits at commercial banks
D) coins
Answer: C

Controlling the Quantity of Money

158) By raising the required reserve ratio, the Fed can
A) reduce interest rates.
B) increase bank lending to the general public.
C) decrease the quantity of money.
D) create an excess of reserves in the banking system.
Answer: C

159) When the Fed lowers the required reserve ratio,
A) banks hold fewer reserves.
B) banks can increase their lending.
C) the quantity of money decreases.
D) Both answers A and B are correct.
Answer: D

160) The most frequently used policy tool of the Fed is the
A) tax rate on bank profits.
B) required reserve ratio for depository institutions.
C) buying and selling of government securities.
D) interest rate charged by the Fed for lending to banks.
Answer: C

161) If the Fed buys U.S. government securities,
A) the quantity of money will increase.
B) the interest rate will rise.
C) bank reserves will decrease.
D) the discount rate will rise.
Answer: A

162) When the central bank buys government securities, it leads to
A) an increase in interest rates.
B) an increase in lending by banks.
C) a decrease in demand deposits.
D) a decrease in the quantity of money.
Answer: B

163) If the Fed sells U.S. government securities,
A) the quantity of money will decrease.
B) the interest rate will fall.
C) bank reserves will rise.
D) the discount rate will fall.
Answer: A

164) If the Fed buys or sells securities from the non-bank public,
A) the monetary base does not change.
B) the quantity of money is unchanged.
C) the effect is like buying and selling securities from banks.
D) the effect will be greater than that of buying and selling the securities from banks.
Answer: C

165) When the Fed buys U.S. government securities from a bank, the Fed
A) pays for the securities by giving the bank gold.
B) credits the bank’s account at the Fed.
C) borrows money from the U.S. Treasury to cover the purchase.
D) decreases the amount of money in circulation.
Answer: B
166) When the Fed sells U.S. government securities to a bank, the Fed
A) loans the money needed to buy the securities to the bank.
B) credits the bank’s account at the Fed.
C) gives the money from the sale to the U.S. Treasury.
D) decreases the monetary base and decreases the quantity of money.
Answer: D

167) When part of an increase in the quantity of money is held in currency then
A) a currency drain occurs.
B) there is a higher level of excess reserves.
C) the money multiplier will increase in value.
D) the Fed will find it beneficial to increase the discount rate.
Answer: A

168) Currency outside of banks increases from $100 million to $200 million. This would be considered
A) a currency drain.
B) a decrease in the monetary base.
C) expansionary monetary policy.
D) contractionary monetary policy.
Answer: A

169) A currency drain
A) leads to an increase in excess reserves.
B) decreases the effect an open market operation has on changing the quantity of money.
C) results in an increase in deposits.
D) results in an increase in required reserves.
Answer: B

170) The larger the public’s currency drain from the banking system, the
A) smaller is the monetary base.
B) smaller is the money multiplier.
C) larger is the monetary base.
D) larger is the money multiplier.
Answer: B

171) The money multiplier determines how much
A) real GDP will be expanded given an increase in autonomous investment.
B) the monetary base will be expanded given a change in the quantity of money.
C) the quantity of money will be expanded given a change in the monetary base.
D) money demand will expand given a change in the quantity of money.
Answer: C

172) The money multiplier is
A) the amount by which a change in the quantity of money is multiplied to determine the change in the monetary base.
B) the amount by which a change in the monetary base is multiplied to determine the change in the quantity of money.
C) equal to bank reserves divided by the change in the monetary base.
D) equal to bank reserves divided by the change the quantity of money.
Answer: B

173) A(n) ____ in the required reserve ratio will ____ the money multiplier.
A) increase; have no effect on
B) increase; decrease
C) decrease; decrease
D) decrease; will have no effect on
Answer: B
CHAPTER 10

Topic: The Money Multiplier
Skill: Analytical
174) When the monetary base increases by $2 billion, the quantity of money increases by $10 billion. Thus, the money multiplier equals
A) 0.2
B) 5
C) 20
D) None of the above.
Answer: B

Topic: The Money Multiplier
Skill: Analytical
175) When the monetary base increases by $4 billion, the quantity of money increases by $10 billion. Thus, the money multiplier equals
A) 0.4
B) 2.5
C) 40
D) None of the above.
Answer: B

Topic: Using the Money Multiplier
Skill: Analytical
176) Suppose that the money multiplier is 3. If the Fed sells $2 million in securities, the quantity of money will
A) increase by $6 million.
B) increase by $666,667.
C) decrease by $6 million.
D) decrease by $666,667.
Answer: C

Topic: Using the Money Multiplier
Skill: Analytical
177) Suppose that the money multiplier is 6. If the Fed buys $1 million in securities, the quantity of money will
A) increase by $6 million.
B) increase by $166,667.
C) decrease by $6 million.
D) decrease by $166,667.
Answer: A

Topic: Using the Money Multiplier
Skill: Analytical
178) Suppose that the money multiplier is 3. If the Fed buys $1 million in securities, the quantity of money will
A) increase by $3 million.
B) increase by $300,000.
C) decrease by $3 million.
D) decrease by $300,000.
Answer: A

Topic: Using the Money Multiplier
Skill: Analytical
179) Suppose that the money multiplier is 4. If the Fed sells $2 million in securities, the quantity of money will
A) increase by $8 million.
B) increase by $500,000.
C) decrease by $8 million.
D) decrease by $500,000.
Answer: C

Topic: The Multiplier Effect of an Open Market Operation
Skill: Recognition
180) The monetary expansion process from an open market operation continues until
A) required reserves are eliminated.
B) the Federal Reserve takes actions to stop the process.
C) the discount rate is lower than market interest rates.
D) excess bank reserves are eliminated.
Answer: D

Study Guide Questions

Topic: Study Guide Question, Barter
Skill: Conceptual
181) Which of the following is NOT a function of money?
A) Medium of exchange
B) Barter
C) Unit of account
D) Store of value
Answer: B
**Topic: Study Guide Question, Medium of Exchange**  
**Skill: Conceptual**  
182) The fact that money can be exchanged for goods reflects money’s role as a  
A) cause of inflation.  
B) medium of exchange.  
C) unit of account.  
D) store of value.  
**Answer: B**

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<th>Assets</th>
<th>Liabilities</th>
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<tr>
<td>Reserves</td>
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</table>

**Topic: Study Guide Question, Reserves: Actual and Required**  
**Skill: Analytical**  
183) In the balance sheet above, the entries are in millions of dollars for the FBN Bank. If the required reserve ratio on deposits is 10 percent, FBN Bank has required reserves of  
A) $700 million.  
B) $120 million.  
C) $100 million.  
D) $0.  
**Answer: B**

**Topic: Study Guide Question, Reserves and Loans**  
**Skill: Analytical**  
185) In the balance sheet above, the entries are in millions of dollars for the FBN Bank. If the required reserve ratio on deposits is 10 percent, FBN Bank can loan an additional  
A) $280 million.  
B) $200 million.  
C) $100 million.  
D) $0.  
**Answer: A**

**Topic: Study Guide Question, Reserves and Loans**  
**Skill: Analytical**  
186) In the balance sheet above, the entries are in millions of dollars for the FBN Bank. After FBN Bank loans the maximum amount it can, the loans have been spent, and the proceeds have been deposited in other banks, FBN Bank has excess reserves of  
A) $300 million.  
B) $200 million.  
C) $100 million.  
D) $0.  
**Answer: D**

**Topic: Study Guide Question, Depository institutions**  
**Skill: Recognition**  
187) Depository institutions do all the following EXCEPT  
A) minimize the cost of obtaining funds.  
B) create liquidity.  
C) pool risks.  
D) create required reserve ratios.  
**Answer: D**

**Topic: Study Guide Question, How Required Reserve Ratios Work**  
**Skill: Conceptual**  
188) A decrease in the required reserve ratio ____ the quantity of reserves banks must hold as legally required reserves and ____ the quantity of money.  
A) increases; increases  
B) increases; decreases  
C) decreases; increases  
D) decreases; decreases  
**Answer: C**
CHAPTER 10

**Topic: Study Guide Question, Using the Money Multiplier**

**Skill: Conceptual**

189) If the money multiplier is 3.5, a $10 billion increase in the monetary base

A) increases the quantity of money by $35 billion.
B) increases the quantity of money by $10 billion.
C) increases the quantity of money by $3.5 billion.
D) increases the quantity of money but not by an amount given above.

*Answer: A*

**MyEconLab Questions**

**Topic: What is Money?**

**Level 1: Definitions and Concepts**

190) Money ____.

A) is always composed of coins and paper
B) loses its value as it becomes older
C) requires a double coincidence of wants
D) is any commodity that is generally acceptable as a means of payment

*Answer: D*

**Topic: Medium of Exchange**

**Level 1: Definitions and Concepts**

191) If an economy has no money, then all transactions must be conducted through the use of ____.

A) credit cards
B) barter
C) debit cards
D) tobacco or wampum

*Answer: B*

**Topic: Money in the United States Today**

**Level 1: Definitions and Concepts**

192) U.S. currency ____.

A) is less efficient than barter
B) includes tobacco
C) is the sum of M1 and M2
D) is composed of the bills and coins that we use today

*Answer: D*

**Topic: Savings Banks**

**Level 1: Definitions and Concepts**

193) A savings bank is a depository institution that ____.

A) sells shares which it uses to purchase shares in U.S. Treasury bills
B) makes mostly mortgage loans
C) is owned by a social or economic group
D) makes mostly consumer loans

*Answer: B*

**Topic: Money in the United States Today, M1**

**Level 1: Definitions and Concepts**

194) M1 includes all the following items except ____.

A) checking deposits owned by individuals and businesses
B) traveler’s checks
C) deposits in money market mutual funds
D) currency owned by individuals and businesses

*Answer: C*

**Topic: Money in the United States Today, M2**

**Level 1: Definitions and Concepts**

195) M2 ____.

A) does not include currency
B) does not include traveler’s checks
C) is a broader measure of money than M1
D) does not include checking deposits held at credit unions

*Answer: C*

**Topic: Liquidity**

**Level 1: Definitions and Concepts**

196) Liquidity ____.

A) increases when a country owns gold
B) increases when a consumer has more credit cards
C) is how quickly an asset loses its worth
D) is the property of being instantly convertible into money

*Answer: D*

**Topic: Depository institutions**

**Level 1: Definitions and Concepts**

197) A depository institution is a firm that takes deposits from ____ and makes loans to ____.

A) households and firms; other households and firms
B) firms; households
C) households; firms
D) firms; other firms

*Answer: A*
Topic: Reserves
Level 1: Definitions and Concepts
198) Reserves are ____.
A) gold in a bank’s vault plus its gold at Federal Reserve banks
B) cash in a bank’s vault plus its deposits at Federal Reserve banks
C) cash in a bank’s vault plus its gold at Federal Reserve banks
D) cash in a bank’s vault plus the cash carried by its customers
Answer: B

Topic: The Federal Reserve System
Level 1: Definitions and Concepts
199) In the United States, the central bank is the ____.
A) Bank of America
B) Federal Reserve System
C) Federal Reserve Bank of New York
D) Federal Reserve Bank of Washington D.C.
Answer: B

Topic: The Federal Reserve System
Level 1: Definitions and Concepts
200) All the following statements about a central bank are true except it ____.
A) is a public authority
B) regulates a nation’s depository institutions
C) accepts personal deposits
D) controls the quantity of money
Answer: C

Topic: Monetary Policy
Level 1: Definitions and Concepts
201) One role of monetary policy is to control ____ by changing the ____.
A) inflation; price level
B) the price level; government spending
C) unemployment; level of taxation
D) inflation; quantity of money in circulation
Answer: D

Topic: Monetary Base
Level 1: Definitions and Concepts
202) The sum of Federal Reserve notes, coins, and banks’ deposits at the Fed is the ____.
A) reserves of the Fed
B) assets of the Fed
C) monetary base
D) liabilities of the Fed
Answer: C

Topic: The Structure of the Federal Reserve System
Level 1: Definitions and Concepts
203) The main policy-making organization of the Federal Reserve System is the ____.
A) U.S. Mint
B) U.S. Treasury
C) team of Alan Greenspan and President Bush
D) Federal Open Market Committee
Answer: D

Topic: The Fed’s Policy Tools, Discount Rate
Level 1: Definitions and Concepts
204) The interest rate that the Fed charges when it lends reserves to depository institutions is the ____ rate.
A) discount
B) short-term
C) reserve
D) Treasury bill
Answer: A

Topic: The Fed’s Power Center
Level 1: Definitions and Concepts
205) The Chairman of the Fed is appointed by ____.
A) the Board of Governors of the Federal Reserve System
B) the President of the United States
C) Congress
D) the U.S. Senate
Answer: B

Topic: The Fed’s Policy Tools, Open Market Operations
Level 1: Definitions and Concepts
206) An open market operation occurs when the ____ buys or sells government securities ____.
A) Federal Reserve System; from or to the federal government
B) Federal Reserve System; in the open market
C) a commercial bank; from or to the federal government
D) a commercial bank; from or to the public
Answer: B
207) Assets of the Fed include ____.
   A) banks’ deposits with the Fed
   B) Federal Reserve notes in circulation
   C) Federal Reserve notes
   D) gold and foreign exchange
   **Answer: D**

208) An increase in currency held outside the banks is ____.
   A) a currency drain
   B) income
   C) a currency surplus
   D) wealth
   **Answer: A**

209) Depository institutions undertake all the following activities except they do not ____.
   A) print money
   B) minimize the cost of monitoring borrowers
   C) pool risk
   D) create liquidity
   **Answer: A**

210) All the following statements about a credit union are true except it ____.
   A) is called a mutual credit union when it is owned by its depositors
   B) makes mostly consumer loans
   C) accepts savings deposits
   D) is a thrift institution
   **Answer: A**

211) Sarah buys shares from a financial institution that uses her funds together with other funds to purchase U.S. treasury bills. Sarah has deposited her money into a ____.
   A) savings bank
   B) credit union
   C) money market mutual fund
   D) savings and loan association
   **Answer: C**

212) If a customer deposits $10,000 in currency into a checking account, the bank’s total reserves ____.
   A) increase
   B) do not change
   C) are greater than 100 percent
   D) decrease
   **Answer: A**

213) A bank’s required reserves are calculated by multiplying ____.
   A) its deposits by the required reserve ratio
   B) the sum of its deposits and cash in its vault by the reserve ratio
   C) cash in its vault by the required reserve ratio
   D) the gold in its vault by the reserve ratio
   **Answer: A**

214) A bank cannot create money unless its ____.
   A) required reserves are greater than actual reserves
   B) excess reserves are zero
   C) actual reserves are greater than required reserves
   D) excess reserves equal deposits multiplied by the reserve ratio
   **Answer: C**

215) The main influences on financial innovation include all of the following except ____.
   A) economic environment
   B) a decrease in the required reserve ratio
   C) technology
   D) regulation
   **Answer: B**

216) When the Fed conducts an open market operation by purchasing securities from the public, ____.
   A) public holdings of securities increase
   B) bank deposits increase but reserves do not change
   C) bank deposits increase but reserves decrease
   D) bank reserves increase
   **Answer: D**
217) The change in the quantity of money divided by the change in the monetary base is called the _____ multiplier.
A) monetary base
B) money
C) deposit
D) monetary policy
Answer: B

218) Your deposit at the bank is _____ to you and _____ to your bank.
A) an asset; a liability
B) net worth; a liability
C) net worth; an asset
D) an asset; net worth
Answer: A

219) In an economy, there is $200 million in currency held outside banks, $100 million in traveler’s checks, $250 million in currency held inside the banks, $300 million in checking deposits, and $600 million in savings deposits. The value of M1 is ____.
A) $750 million
B) $1,200 million
C) $1,150 million
D) $600 million
Answer: D

220) When bank deposits increase from $1 million to $2 million, bank reserves increase from $100,000 to $200,000. If banks hold no excess reserves, then the required reserve ratio is ____.
A) 10.0
B) 0.10
C) 1.00
D) 0.25
Answer: B
225) Following an open market operation, the Fed’s assets increase by $5 million and its liabilities increase by $5 million. These changes are indicative of an open market ____.
A) sale to a commercial bank but not to the public
B) purchase from either a commercial bank or the public
C) purchase from the government
D) sale to either a commercial bank or the public
Answer: B

226) The Fed buys $50 million of U.S. government securities to the Manhattan Commercial Bank. The Fed’s assets will ____ and the Fed’s liabilities will ____. The Manhattan Commercial Bank’s assets will ____ and the Manhattan Commercial Bank’s liabilities will ____.
A) not change; not change; increase by $50 million; decrease by $50 million
B) not change; not change; increase by $50 million; increase by $50 million
C) decrease by $50 million; decrease by $50 million; not change; not change
D) increase by $50 million; increase by $50 million; not change; not change
Answer: D

227) If an increase in the monetary base of $8 billion increases the quantity of money by $64 billion, then the money multiplier is equal to ____.
A) $64 billion
B) 8
C) $8 billion
D) 1/8
Answer: B

228) ____ in the currency drain ____ the money multiplier.
A) A decrease; does not change
B) An increase; increases
C) A decrease; decreases
D) An increase; decreases
Answer: D

229) Suppose that the Fed conducts an open market operation that results in the commercial banks having excess reserves of $100,000. If the currency drain is 20 percent and the required reserve ratio is 10 percent, then at the end of the first round, total deposits will be ____ and at the end of the second round total deposits will be ____.
A) $80,000; $137,600
B) $80,000; $57,600
C) $100,000; $190,000
D) $20,000; $34,400
Answer: A
Topic: Reserves: Actual and Required
Level 4: Advanced Calculations and Predictions
232) The commercial banks on Sunny Island have checking deposits of $4 million, reserves of $600,000, and loans of $2.4 million. The required reserve ratio is 10 percent. The banks have ____ of required reserves and ____ of excess reserves.
A) $600,000; $0
B) $400,000; $200,000
C) $400,000; $600,000
D) $600,000; $200,000
Answer: B

Topic: Money in the United States Today, M1 and M2
Level 4: Advanced Calculations and Predictions
233) A new financial innovation results in people switching their funds from checking deposits to savings accounts. The quantity of M1 ____ and the quantity of M2 ____.
A) decreases; decreases
B) increases; decreases
C) decreases; does not change
D) decreases; increases
Answer: C

Topic: The Money Multiplier
Level 4: Advanced Calculations and Predictions
234) In Zealand, banks’ required reserve ratio is 20 percent and there is no currency drain. The Bank of Zealand conducts a $1 million open market purchase. Zealand’s monetary base ____ and the quantity of money in Zealand ____.
A) decreases by $1 million; decreases by $5 million
B) increases by $1 million; decreases by $1 million
C) decreases by $1 million; decreases by $1 million
D) increases by $1 million; increases by $5 million
Answer: D

Topic: The Money Multiplier
Level 4: Advanced Calculations and Predictions
235) In Fair Isle, banks have no excess reserves and total required reserves of $6 billion. $5 billion of these reserves are on deposit at the central bank. Bank notes in circulation outside of the central bank total $10 billion. Bank deposits total $50 billion. The quantity of money is ____ and the money multiplier is ____.
A) $66 billion; 13.20
B) $50 billion; 3.33
C) $60 billion; 4.00
D) $59 billion; 3.93
Answer: D