

Quiz # 9
Dr. Nath

Multiple Choice

Identify the choice that best completes the statement or answers the question.

Table 1.

Bank of Kopeka

Assets		Liabilities	
Reserves	\$2,000	Deposits	\$20,000
Loans	18,000		

- _____ 1. **Refer to Table 1.** From the table it follows that Bank of Kopeka operates in a
- fractional-reserve banking system, since its reserves are less than its deposits.
 - fractional-reserve banking system, since its reserves are less than its loans.
 - 100-percent-reserve banking system, since its assets are equal to its liabilities.
 - 100-percent-reserve banking system if the Fed's reserve requirement is 10 percent; otherwise, it operates in a fractional-reserve banking system.
- _____ 2. Suppose a bank's reserve ratio is 5 percent and the bank has \$1,000 in deposits. Its reserves amount to
- \$5.
 - \$50.
 - \$95.
 - \$950.
- _____ 3. If the central bank in some country lowered the reserve requirement, then the money multiplier for that country
- would increase.
 - would not change.
 - would decrease.
 - could do any of the above.
- _____ 4. If the reserve ratio for all banks is 5 percent, then \$1,000 of additional reserves can create up to
- \$200 of new money.
 - \$2,000 of new money.
 - \$20,000 of new money.
 - None of the above is correct.
- _____ 5. The money supply decreases if the Fed
- sells Treasury bonds. The larger the reserve requirement, the larger the decrease will be.
 - sells Treasury bonds. The smaller the reserve requirement, the larger the decrease will be.
 - buys Treasury bonds. The larger the reserve requirement, the larger the decrease will be.
 - buys Treasury bonds. The smaller the reserve requirement, the larger the decrease will be.

Name: _____

ID: A

- _____ 6. To increase the money supply, the Fed could
- sell government bonds.
 - increase the discount rate.
 - decrease the reserve requirement.
 - None of the above is correct.
- _____ 7. Which of the following lists two things that both decrease the money supply?
- lower the discount rate, raise the reserve requirement ratio
 - lower the discount rate, lower the reserve requirement ratio
 - raise the discount rate, raise the reserve requirement ratio
 - raise the discount rate, lower the reserve requirement ratio
- _____ 8. When prices are falling, economists say that there is
- disinflation.
 - deflation.
 - a contraction.
 - an inverted inflation.
- _____ 9. The term *hyperinflation* refers to
- the spread of inflation from one country to others.
 - a decrease in the inflation rate.
 - a period of very high inflation.
 - inflation accompanied by a recession.
- _____ 10. The value of money falls as the price level
- rises, because the number of dollars needed to buy a representative basket of goods rises.
 - rises, because the number of dollars needed to buy a representative basket of goods falls.
 - falls, because the number of dollars needed to buy a representative basket of goods rises.
 - falls, because the number of dollars needed to buy a representative basket of goods falls.

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Answer Section

MULTIPLE CHOICE

1. ANS: A PTS: 1 DIF: 2 REF: 29-3
 NAT: Analytic LOC: Monetary and fiscal policy TOP: Fractional-reserve banking
 MSC: Applicative
2. ANS: B PTS: 1 DIF: 1 REF: 29-3
 NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserves
 MSC: Applicative
3. ANS: A PTS: 1 DIF: 1 REF: 29-3
 NAT: Analytic LOC: Monetary and fiscal policy TOP: Money multiplier
 MSC: Applicative
4. ANS: C PTS: 1 DIF: 1 REF: 29-3
 NAT: Analytic LOC: Monetary and fiscal policy TOP: Money multiplier
 MSC: Applicative
5. ANS: B PTS: 1 DIF: 2 REF: 29-3
 NAT: Analytic LOC: Monetary and fiscal policy
 TOP: Reserve requirements | Money multiplier MSC: Applicative
6. ANS: C PTS: 1 DIF: 1 REF: 29-3
 NAT: Analytic LOC: Monetary and fiscal policy
 TOP: Money supply | Reserve requirements MSC: Definitional
7. ANS: C PTS: 1 DIF: 2 REF: 29-3
 NAT: Analytic LOC: Monetary and fiscal policy
 TOP: Money supply | Discount rate | Reserve requirements MSC: Definitional
8. ANS: B PTS: 1 DIF: 1 REF: 30-0
 NAT: Analytic LOC: Unemployment and inflation TOP: Deflation
 MSC: Definitional
9. ANS: C PTS: 1 DIF: 1 REF: 30-0
 NAT: Analytic LOC: Unemployment and inflation TOP: Hyperinflation
 MSC: Definitional
10. ANS: A PTS: 1 DIF: 1 REF: 30-1
 NAT: Analytic LOC: The role of money TOP: Inflation
 MSC: Interpretive