Quiz # 8

Dr. Nath

Multiple Choice

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

1. A bank’s assets equal its liabilities under
   a. both 100-percent-reserve banking and fractional-reserve banking.
   b. neither 100-percent-reserve banking nor fractional-reserve banking.
   c. 100-percent-reserve banking but not under fractional-reserve banking.
   d. fractional-reserve banking but not under 100-percent-reserve banking.

2. If the reserve ratio is 12.5 percent, the money multiplier is
   a. 6.25.
   b. 8.
   c. 12.5.
   d. 25.

3. If the reserve ratio is 100 percent, then a new deposit of $500 into a bank account
   a. eventually increases the money supply by $500.
   b. leaves the size of the money supply unchanged.
   c. eventually decreases the size of the money supply by $500.
   d. None of the above is correct.

4. If the Fed makes open market purchases of bonds,
   a. the money supply increases by more than the amount of bonds purchased.
   b. the money supply increases by less than the amount of bonds purchased.
   c. the money supply decreases by more than the amount of bonds purchased.
   d. the money supply decreases by less than the amount of bonds purchased.

5. Which tool of monetary policy does the Federal Reserve use most often?
   a. adjustments to long-term interest rates
   b. open-market operations
   c. changes in reserve requirements
   d. changes in the discount rate

6. When the Fed decreases the discount rate, banks will
   a. borrow more from the Fed and lend more to the public. The money supply increases.
   b. borrow more from the Fed and lend less to the public. The money supply decreases.
   c. borrow less from the Fed and lend more to the public. The money supply increases.
   d. borrow less from the Fed and lend less to the public. The money supply decreases.

7. The value of money falls as the price level
   a. rises, because the number of dollars needed to buy a representative basket of goods rises.
   b. rises, because the number of dollars needed to buy a representative basket of goods falls.
   c. falls, because the number of dollars needed to buy a representative basket of goods rises.
   d. falls, because the number of dollars needed to buy a representative basket of goods falls.
8. When the money market is drawn with the value of money on the vertical axis, a decrease in the price level causes a
   a. movement to the right along the money demand curve.
   b. movement to the left along the money demand curve.
   c. shift to the right of the money supply curve.
   d. shift to the left of the money supply curve.

9. When the money market is drawn with the value of money on the vertical axis, if the Federal Reserve buys bonds, then the money supply curve
   a. shifts rightward, causing the price level to rise.
   b. shifts rightward, causing the price level to fall.
   c. shifts leftward, causing the price level to rise.
   d. shifts leftward, causing the price level to fall.

10. Money demand depends on
    a. the price level and the interest rate.
    b. the price level but not the interest rate.
    c. the interest rate but not the price level.
    d. neither the price level nor the interest rate.
Quiz # 8  
Answer Section

MULTIPLE CHOICE

1. ANS: A  
   PTS: 1  
   DIF: 2  
   REF: 29-3  
   NAT: Analytic  
   LOC: The study of economics and definitions in economics  
   TOP: Banks  
   MSC: Interpretive

2. ANS: B  
   PTS: 1  
   DIF: 1  
   REF: 29-3  
   NAT: Analytic  
   LOC: Monetary and fiscal policy  
   TOP: Money multiplier  
   MSC: Applicative

3. ANS: B  
   PTS: 1  
   DIF: 2  
   REF: 29-3  
   NAT: Analytic  
   LOC: Monetary and fiscal policy  
   TOP: Money multiplier  
   MSC: Applicative

4. ANS: A  
   PTS: 1  
   DIF: 2  
   REF: 29-3  
   NAT: Analytic  
   LOC: Monetary and fiscal policy  
   TOP: Open-market operations | Money supply  
   MSC: Analytical

5. ANS: B  
   PTS: 1  
   DIF: 1  
   REF: 29-3  
   NAT: Analytic  
   LOC: Monetary and fiscal policy  
   TOP: Monetary policy  
   MSC: Applicative

6. ANS: A  
   PTS: 1  
   DIF: 2  
   REF: 29-3  
   NAT: Analytic  
   LOC: Monetary and fiscal policy  
   TOP: Discount rate  
   MSC: Interpretive

7. ANS: A  
   PTS: 1  
   DIF: 1  
   REF: 30-1  
   NAT: Analytic  
   LOC: The role of money  
   TOP: Inflation  
   MSC: Interpretive

8. ANS: B  
   PTS: 1  
   DIF: 1  
   REF: 30-1  
   NAT: Analytic  
   LOC: The role of money  
   TOP: Money market | Money demand  
   MSC: Applicative

9. ANS: A  
   PTS: 1  
   DIF: 2  
   REF: 30-1  
   NAT: Analytic  
   LOC: Monetary and fiscal policy  
   TOP: Money market | Money supply  
   MSC: Interpretive

10. ANS: A  
    PTS: 1  
    DIF: 2  
    REF: 30-1  
    NAT: Analytic  
    LOC: The role of money  
    TOP: Money demand  
    MSC: Definitional