Quiz # 9  
Dr. Nath  

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

**Table 1.**  

<table>
<thead>
<tr>
<th>Bank of Kopeka</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td><strong>Liabilities</strong></td>
</tr>
<tr>
<td>Reserves</td>
<td>Deposits</td>
</tr>
<tr>
<td>$2,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Loans</td>
<td></td>
</tr>
<tr>
<td>18,000</td>
<td></td>
</tr>
</tbody>
</table>

**1.** Refer to Table 1. From the table it follows that Bank of Kopeka operates in a  
a. fractional-reserve banking system, since its reserves are less than its deposits.  
b. fractional-reserve banking system, since its reserves are less than its loans.  
c. 100-percent-reserve banking system, since its assets are equal to its liabilities.  
d. 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  
a. $5.  
b. $50.  
c. $95.  
d. $950.

**3.** If the central bank in some country lowered the reserve requirement, then the money multiplier for that country  
a. would increase.  
b. would not change.  
c. would decrease.  
d. 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  
a. $200 of new money.  
b. $2,000 of new money.  
c. $20,000 of new money.  
d. None of the above is correct.

**5.** The money supply decreases if the Fed  
a. sells Treasury bonds. The larger the reserve requirement, the larger the decrease will be.  
b. sells Treasury bonds. The smaller the reserve requirement, the larger the decrease will be.  
c. buys Treasury bonds. The larger the reserve requirement, the larger the decrease will be.  
d. buys Treasury bonds. The smaller the reserve requirement, the larger the decrease will be.
6. To increase the money supply, the Fed could  
   a. sell government bonds.  
   b. increase the discount rate.  
   c. decrease the reserve requirement.  
   d. None of the above is correct.

7. Which of the following lists two things that both decrease the money supply?  
   a. lower the discount rate, raise the reserve requirement ratio  
   b. lower the discount rate, lower the reserve requirement ratio  
   c. raise the discount rate, raise the reserve requirement ratio  
   d. raise the discount rate, lower the reserve requirement ratio

8. When prices are falling, economists say that there is  
   a. disinflation.  
   b. deflation.  
   c. a contraction.  
   d. an inverted inflation.

9. The term *hyperinflation* refers to  
   a. the spread of inflation from one country to others.  
   b. a decrease in the inflation rate.  
   c. a period of very high inflation.  
   d. inflation accompanied by a recession.

10. 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.
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