1) Which of the following are depository institutions?
   A) The Federal Reserve Banks of New York and Chicago
   B) The U.S. Treasury and the IRS
   C) Banks and thrifts
   D) Investment banks and finance companies
Answer: C
Diff: 1
Topic: Section 14.1
Question Status: New

3) Vault cash is equal to $2 million, deposits by depository institutions at the central bank are $1 million, the monetary base is $15 million, and bank deposits are $35 million. Currency held by the nonbank public is
   A) $3 million.
   B) $12 million.
   C) $15 million.
   D) $20 million.
Answer: B
Diff: 2
Topic: Section 14.1
Question Status: Previous Edition

5) Fractional reserve banking is the system that
   A) allows banks not to insure their deposits.
   B) allows banks not to join the Federal Reserve System.
   C) limits banks' activities from crossing state lines.
   D) allows banks to keep smaller reserves than their deposits.
Answer: D
Diff: 1
Topic: Section 14.1
Question Status: Previous Edition

6) Banks hold some deposits on reserve at the Fed because
   A) the Fed pays a higher interest rate than banks can get in the private market.
   B) the Fed will insure those deposits, but will not insure regular bank deposits.
   C) these are membership dues for being a member bank.
   D) these deposits meet the reserve requirements of the Fed.
Answer: D
Diff: 1
Topic: Section 14.1
Question Status: New

8) In a fractional reserve banking system with no currency where \( res \) is the ratio of reserves to deposits, the money multiplier is
   A) \( 1 - res \).
   B) \( 1 + res \).
   C) \( 1/res \).
10) Assume that the reserve-deposit ratio is 0.2. The Federal Reserve carries out open-market operations, purchasing $1 million worth of bonds from banks. This action increased the money supply by $2,600,000. What is the currency-deposit ratio?
   A) 0.2
   B) 0.3
   C) 0.4
   D) 0.5
   Answer: B
   Diff: 3
   Topic: Section 14.1
   Question Status: Previous Edition

14) Suppose there was a banking crisis. The money supply would shrink by the greatest amount if the public ______ their currency-deposit ratio and the banks ______ their reserve-deposit ratio.
   A) decreased; decreased
   B) decreased; increased
   C) increased; decreased
   D) increased; increased
   Answer: D
   Diff: 2
   Topic: Section 14.1
   Question Status: Previous Edition

15) Suppose the Federal Reserve wanted to reduce the money supply without using open-market operations. It could try to get the public to ______ their currency-deposit ratio and ______ banks’ reserve requirements, which would in turn change the banks’ reserve-deposit ratio.
   A) decrease; lower
   B) decrease; raise
   C) increase; lower
   D) increase; raise
   Answer: D
   Diff: 2
   Topic: Section 14.1
   Question Status: Previous Edition

16) The money supply is $10 million, currency held by the nonbank public is $2 million, and the reserve-deposit ratio is 0.2. Bank reserves are equal to
   A) $1.6 million.
   B) $2 million.
   C) $4 million.
   D) $8 million.
   Answer: A
   Diff: 2
   Topic: Section 14.1
   Question Status: Previous Edition
18) The money supply is $6 million, currency held by the nonbank public is $2 million, and the reserve–deposit ratio is 0.1. The monetary base is equal to
   A) $2 million.
   B) $2.4 million.
   C) $2.6 million.
   D) $4 million.
   Answer: B
   Diff: 2
   Topic: Section 14.1
   Question Status: Previous Edition

19) Vault cash is equal to $8 million, deposits by depository institutions at the central bank are $2 million, the monetary base is $40 million, and bank deposits are $90 million. The money multiplier is equal to
   A) 2.5.
   B) 3.0.
   C) 4.0.
   D) 5.0.
   Answer: B
   Diff: 2
   Topic: Section 14.1
   Question Status: Previous Edition

20) Vault cash is equal to $8 million, deposits by depository institutions at the central bank are $2 million, the monetary base is $30 million, and bank deposits are $100 million. The money multiplier is equal to
   A) 2.5.
   B) 3.0.
   C) 4.0.
   D) 5.0.
   Answer: C
   Diff: 2
   Topic: Section 14.1
   Question Status: New

21) Suppose that in Mysore, the reserve–deposit ratio is
   \[ res = 0.5 - 2i \]
   where \( i \) is the nominal interest rate. The currency–deposit ratio is 0.2 and the monetary base equals 100. The real quantity of money demanded is given by the money demand function
   \[ L(Y, i) = 0.5Y - 10i \]
   where \( Y \) is real output. Currently, the real interest rate is 5% and the economy expects an inflation rate of 5%. The money multiplier equals
   A) 2.00.
   B) 2.40.
   C) 3.00.
   D) 4.00.
   Answer: B
   Diff: 2
   Topic: Section 14.1
   Question Status: Previous Edition

25) If the money multiplier is 10, the sale of $1 billion of securities by the Fed on the open market causes a
   A) $10 billion decrease in the money supply.
   B) $1 billion decrease in the money supply.
C) $1 billion increase in the money supply.
D) $10 billion increase in the money supply.

Answer: A

Diff: 2
Topic: Section 14.1
Question Status: New

27) The Fed can reduce the money supply by reducing
   A) the currency-deposit ratio.
   B) the monetary base.
   C) reserve requirements.
   D) the discount rate.

Answer: B

Diff: 2
Topic: Section 14.1
Question Status: Previous Edition

14.2 Money Control in the United States

1) How many Federal Reserve Banks are there?
   A) 7
   B) 12
   C) 15
   D) 5,500 (approximately)

Answer: B

Diff: 1
Topic: Section 14.2
Question Status: Previous Edition

6) The Federal Open Market Committee consists of all the following people EXCEPT
   A) the Board of Governors of the Federal Reserve System.
   B) five presidents of Federal Reserve Banks, on a rotating basis.
   C) the chairman of the President’s Council of Economic Advisors.
   D) the President of the Federal Reserve Bank of New York.

Answer: C

Diff: 1
Topic: Section 14.2
Question Status: Previous Edition

7) The Federal Reserve System’s largest asset is
   A) gold.
   B) loans to depository institutions.
   C) deposits of depository institutions.
   D) U.S. Treasury securities.

Answer: D

Diff: 1
Topic: Section 14.2
Question Status: Previous Edition

10) Changes in reserve requirements directly and immediately affect
    A) the monetary base.
B) banks' holdings of securities.
C) the Fed's holdings of foreign exchange.
D) the money multiplier.
Answer: D
Diff: 1
Topic: Section 14.2
Question Status: Previous Edition

11) The primary purpose of the discount window is to
   A) influence the nation's money supply.
   B) fulfill the bank's lender of last resort role.
   C) control banks' excess reserves.
   D) influence the amount of loans that banks provide to the public.
Answer: B
Diff: 1
Topic: Section 14.2
Question Status: Previous Edition

12) When U.S. banks borrow from one another, they must pay the
   A) discount rate.
   B) prime rate.
   C) Fed funds rate.
   D) Interbank Offer Rate.
Answer: C
Diff: 1
Topic: Section 14.2
Question Status: Previous Edition

15) Which of the following best describes the relationship between the Fed funds rate and the discount rate, beginning in 2003?
   A) The Fed funds rate is usually lower than the discount rate.
   B) The two rates are equal.
   C) The discount rate is usually lower than the Fed funds rate.
   D) There is no relationship between the two rates.
Answer: A
Diff: 1
Topic: Section 14.2
Question Status: Previous Edition

17) Which of the following variables is likely to serve as an intermediate target for monetary policy?
   A) Money supply
   B) Inflation rate
   C) Open-market operations
   D) Unemployment rate
Answer: A
Diff: 1
Topic: Section 14.2
Question Status: Previous Edition

18) In the Keynesian model, suppose the Fed sets a target for the money supply. If the IS curve shifts to the left, and the Fed wants to keep output unchanged, what should the Fed do?
   A) reduce taxes
   B) reduce the money supply
21) In response to an unanticipated easing of monetary policy, output _______ at first, then _______ after about 4 months.
   A) rises; returns most of the way to its original value
   B) falls; returns most of the way to its original value
   C) remains roughly unchanged; rises significantly
   D) remains roughly unchanged; falls significantly
   Answer: C

23) Which of the following is not a major channel of monetary policy transmission?
   A) Interest rate channel
   B) Exchange rate channel
   C) Fiscal channel
   D) Credit channel
   Answer: C

27) The credit channel of monetary policy transmission works in two ways. On the supply side of the credit market, tight monetary policy leads to _______ lending by banks; on the demand side of the credit market, tight monetary policy leads to _______ in the credit-worthiness of borrowers.
   A) increased; an increase
   B) increased; a decrease
   C) reduced; a decrease
   D) reduced; an increase
   Answer: C
Question

Status:

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Edition