

Principles of Macroeconomics

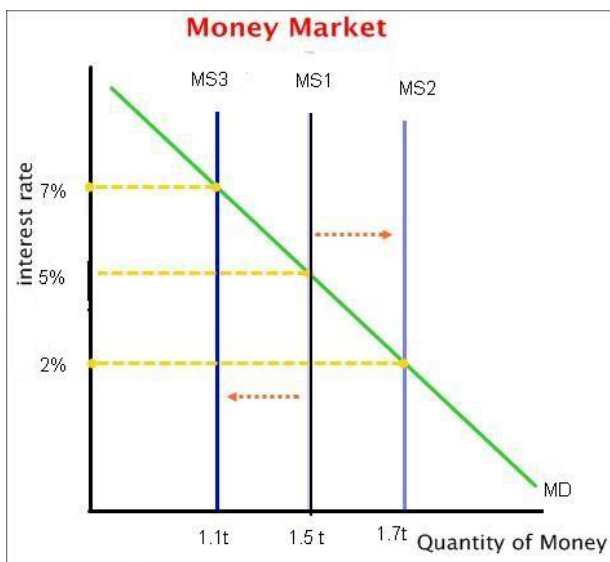
Homework Assignment 11

Multiple Choice

- _____ 1. The agency responsible for regulating the money supply in the United States is
- the Comptroller of the Currency.
 - the U.S. Treasury.
 - the Federal Reserve.
 - the U.S. Bank.
- _____ 2. The Federal Reserve System does all except which of the following?
- control the supply of money
 - control the value of money
 - make loans to households
 - regulate the banking system
- _____ 3. Which of the following is correct?
- The Federal Reserve has 14 regional banks. The Board of Governors has 12 members who serve 7-year terms.
 - The Federal Reserve has 14 regional banks. The Board of Governors has 7 members who serve 14-year terms.
 - The Federal Reserve has 12 regional banks. The Board of Governors has 12 members who serve 7-year terms.
 - The Federal Reserve has 12 regional banks. The Board of Governors has 7 members who serve 14-year terms.
- _____ 4. Which of the following does the Federal Reserve *not* do?
- conduct monetary policy
 - act as a lender of last resort
 - convert the U.S. currencies into gold
 - serve as a bank regulator
- _____ 5. When the Federal Reserve conducts open-market operations to increase the money supply, it
- redeems U.S. dollars.
 - buys government bonds from the public.
 - raises the discount rate.
 - decreases its lending to member banks.
- _____ 6. Suppose the interest rate for saving deposit is 3%. The opportunity cost of holding \$1000 cash is
- zero.
 - \$30 per year.
 - \$3 per year.
 - \$300 per year.
- _____ 7. Which of the following is true about money demand?
- When interest rate is high, people tend to hold less cash and save more in saving deposits.
 - When interest rate is high, people tend to hold more cash and spend it.
 - When interest rate is high, people tend to hold the same amount of cash.
 - When interest rate is low, people tend to hold less cash and save more in saving deposits.
- _____ 8. When income level increase, households tend to hold
- more money; thus money demand decreases.
 - less money; thus money demand increases.
 - more money; thus money demand increases.
 - less money; thus money demand decreases.

- _____ 9. The Fed has been lowering the interest rate (Federal Fund Rate) from 4.75% to 0.25% since September 2007. What can the Fed do to lower the interest rate?
- buy government bonds in the open market.
 - increase the discount rate.
 - increase the reserve requirement.
 - increase money demand.
- _____ 10. Which of the following is not a tool of monetary policy?
- open market operations
 - changing reserve ratio
 - changing the discount rate
 - increasing the government spending
- _____ 11. The discount rate is
- the interest rate at which commercial banks lend to other commercial banks.
 - the interest rate at which the Fed lends to banks.
 - the percentage difference between the face value of a government bond and what the Fed pays for it.
 - the percentage of deposits banks hold as reserves.
- _____ 12. When the Fed decreases the discount rate, banks will tend to
- borrow more from the Fed and lend more to the public. The money supply increases.
 - borrow more from the Fed and lend less to the public. The money supply decreases.
 - borrow less from the Fed and lend more to the public. The money supply increases.
 - borrow less from the Fed and lend less to the public. The money supply decreases.

Figure 11-1



- _____ 13. Refer to Figure 11-1. If the Fed lower the money supply from MS1 to MS3,
- the interest rate would increase from 2% to 5%
 - the interest rate would increase from 2% to 7%
 - the interest rate would decrease from 7% to 5%
 - the interest rate would increase from 5% to 7%

- _____ 14. Refer to Figure 11-1. Suppose the market interest rate was at 5%. If the Fed purchase government bonds from the open market,
- money demand will go up and interest rate will increase.
 - money supply will increase and interest rate will be higher than 5%.
 - interest rate will be lower than 5%.
 - money supply will decrease and interest rate will be lower than 5%.
- _____ 15. The money supply curve would shift right
- if the money demand curve shifted right.
 - if the Federal Reserve chose to increase money supply.
 - if the interest rate increased.
 - All of the above are correct.
- _____ 16. Which of the following Fed actions would both increase the money supply?
- buy government bonds and raise the reserve requirement
 - buy government bonds and lower the reserve requirement
 - sell government bonds and raise the reserve requirement
 - sell government bonds and lower the reserve requirement
- _____ 17. People will want to hold more money (in the form of cash) if the price level
- or the interest rate increases.
 - or the interest rate decreases.
 - increases or the interest rate decreases.
 - decreases or the interest rate increases.
- _____ 18. Which of the following is the right sequence?
- money supply increases; interest rate increases; investment increases; GDP increases.
 - money supply increases; interest rate decreases; investment decreases; GDP increases.
 - money supply increases; interest rate decreases; investment increases; GDP increases.
 - money supply increases; interest rate decreases; investment increases; GDP decreases.
- _____ 19. During recession, if the Federal Reserve decided to stimulate the economy, it could
- buy government bonds to lower the money supply, thus raise interest rate to lower aggregate demand.
 - buy government bonds to raise the money supply, thus lower interest rate to raise aggregate demand.
 - sell government bonds to lower the money supply, thus raise interest rate to lower aggregate demand.
 - sell government bonds to raise the money supply, thus lower interest rate to raise aggregate demand.
- _____ 20. If the economy is overheating, which of the following monetary policies is appropriate for the Federal Reserve to apply?
- Lower money supply; raise interest rate; lower aggregate demand and lower inflation.
 - Raise money supply; lower interest rate; raise aggregate demand and lower unemployment.
 - Lower money supply; raise interest rate; raise aggregate demand and increase GDP growth.
 - All of the above.