Principles of Macroeconomics
Homework Assignment 11
Answer Sheet

Name ______________________   Class Day/Time ___________________

Questions of this homework are in the next few pages. Please find the answer of the questions and fill in the blanks below. Turn in this answer sheet on the due date in class. Keep the remaining pages to study.

1. ________	**11. ________**
2. ________	**12. ________**
3. ________	**13. ________**
4. ________	**14. ________**
5. ________	**15. ________**
6. ________	**16. ________**
7. ________	**17. ________**
8. ________	**18. ________**
9. ________	**19. ________**
10. ________	**20. ________**

Principles of Macroeconomics
Homework 11

Name ____________________________

____ 1. The agency responsible for regulating the money supply in the United States is
- a. the Comptroller of the Currency.
- b. the U.S. Treasury.
- c. the Federal Reserve.
- d. the U.S. Bank.

____ 2. The Federal Reserve System does all except which of the following?
- a. control the supply of money
- b. stabilize the price level
- c. make loans to households directly
- d. exercise monetary policy to achieve high employment and steady GDP grow

____ 3. Suppose the Federal Reserve buys $2,000 of government bonds from the open market. Given the reserve ratio being 10%, the money supply would
- a. increase by $10,000.
- b. decrease by $10,000.
- c. increase by $20,000.
- d. decrease by $20,000.

____ 4. Which of the following does the Federal Reserve *not* do?
- a. conduct monetary policy
- b. act as a lender of last resort
- c. convert the U.S. currencies into gold
- d. control the money supply

____ 5. When the Federal Reserve conducts open-market operations to increase the money supply, it
- a. redeems U.S. dollars.
- b. buys government bonds.
- c. raises the discount rate.
- d. decreases its lending to member banks.

____ 6. Suppose the reserve ratio is 10%. If the Federal Reserve sells $1,000 of government bonds in the open market, money supply would
- a. decrease by $10,000.
- b. increase by $10,000.
- c. decrease by $20,000.
- d. increase by $20,000.

____ 7. Which of the following is true about money demand?
- a. When interest rate is high, people tend to hold less cash and save more in saving deposits.
- b. When interest rate is high, people tend to hold more cash and spend it.
- c. When interest rate is high, people tend to hold the same amount of cash.
- d. When interest rate is low, people tend to hold less cash and save more in saving deposits.

____ 8. When income level increases, households tend to hold
- a. more money; and thus money demand decreases.
- b. less money; and thus money demand increases.
- c. more money; and thus money demand increases.
- d. less money; and thus money demand decreases.

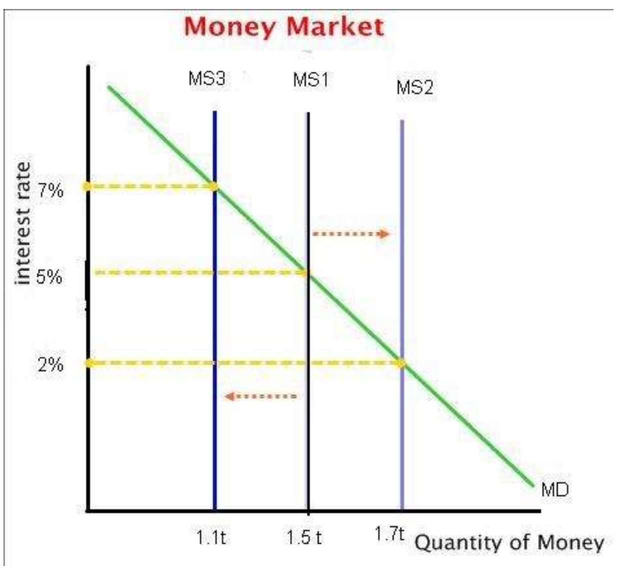
____ 9. Which of the following can the Fed do to lower the interest rate?
- a. buy government bonds in the open market
- b. increase the discount rate
- c. increase the reserve requirement
- d. increase money demand

____ 10. Which of the following is not a tool of monetary policy?
a. open market operations
b. changing reserve ratio
c. changing the discount rate
d. increasing the government spending

____ 11. The discount rate is
a. the interest rate at which commercial banks lend to other commercial banks.
b. the interest rate at which the Fed lends to banks.
c. the percentage difference between the face value of a government bond and what the Fed pays for it.
d. the percentage of deposits banks hold as reserves.

____ 12. When the Fed decreases the discount rate, banks will tend to
a. borrow more from the Fed and lend more to the public; and thus the money supply increases.
b. borrow more from the Fed and lend less to the public; and thus the money supply decreases.
c. borrow less from the Fed and lend more to the public; and thus the money supply increases.
d. borrow less from the Fed and lend less to the public; and thus the money supply decreases.

Figure 11-1



____ 13. Refer to Figure 11-1. If the Fed lower the money supply from MS1 to MS3,
a. the interest rate would increase from 2% to 5%
b. the interest rate would increase from 2% to 7%
c. the interest rate would decrease from 7% to 5%
d. 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,
a. money demand will go up and interest rate will increase.
b. money supply will increase and interest rate will be higher than 5%.
c. interest rate will be lower than 5%.
d. money supply will decrease and interest rate will be lower than 5%.

____ 15. The money supply curve would shift right
- a. if the money demand curve shifted right.
- b. if the Federal Reserve chose to increase money supply.
- c. if the interest rate increased.
- d. all of the above are correct.

____ 16. Which of the following Fed actions would both increase the money supply?
- a. buy government bonds and raise the reserve requirement
- b. buy government bonds and lower the reserve requirement
- c. sell government bonds and raise the reserve requirement
- d. sell government bonds and lower the reserve requirement

____ 17. People would tend to hold more money (in the form of cash) if the price level
- a. increases or their income increases.
- b. decreases or their income increases.
- c. increases or their income decreases.
- d. decreases or their income decreases.

____ 18. Which of the following is the right sequence?
- a. money supply increases; interest rate increases; investment increases; GDP increases
- b. money supply increases; interest rate decreases; investment decreases; GDP increases
- c. money supply increases; interest rate decreases; investment increases; GDP increases
- d. money supply increases; interest rate decreases; investment increases; GDP decreases

____ 19. During recession, if the Federal Reserve decided to stimulate the economy, it could
- a. buy government bonds to lower the money supply; and thus raise interest rate to lower aggregate demand.
- b. buy government bonds to raise the money supply; and thus lower interest rate to raise aggregate demand.
- c. sell government bonds to lower the money supply; and thus raise interest rate to lower aggregate demand.
- d. sell government bonds to raise the money supply; and 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?
- a. Lower money supply; raise interest rate; lower aggregate demand; lower inflation.
- b. Raise money supply; lower interest rate; raise aggregate demand; lower unemployment.
- c. Lower money supply; raise interest rate; raise aggregate demand; increase GDP growth.
- d. All of the above are correct.