Econ 202 Homework 5 – Monetary Policy - 25 Points

1. Money serves all following economic functions <u>EXCEPT</u>:
   a. a source of economic wealth.
   b. a method of exchange.
   c. a standard of value.
   d. a store of value.

2. The term "liquidity" refers to
   a. the ability of a bank to borrow money from the Federal Reserve Bank.
   b. the solvency of a bank.
   c. the ability to easily convert an asset into cash.
   d. the severity of a run on a bank.

3. Transaction accounts are classified as money because:
   a. they can be directly used in the making of purchases and payment of debts.
   b. banks hold currency equal to the value of their outstanding deposits.
   c. they earn interest income for the depositor.
   d. they are insured by the U.S. Treasury.

4 A bank's excess reserves are the amount of its total deposits
   a. required for daily transactions.
   b. that it must keep deposited in the Federal Reserve System.
   c. that is available to be loaned to borrowers.
   d. that it has loaned to new borrowers.

5. Banks try to keep their holdings of excess reserves low
   a. to maximize profits.
   b. to escape penalties from the Fed.
   c. to keep the money multiplier low.
   d. to please bank regulators.

6. The banking system creates money primarily
   a. when the Treasury prints more currency.
   b. when the Fed decreases the excess reserves of member banks.
   c. through the lending and depositing functions of private, commercial banks.
   d. a and b
   e. all of the above.

7. The money multiplier is equal to
   a. required reserve ratio x total deposits
   b. 1/(required reserve ratio)
   c. (total reserves – required reserves) x deposits
   d. total reserves – required reserves

8. If the banking system has required reserves of 5% then the money multiplier is:
   a. 4.
   b. 5.
   c. 10.
   d. 20.
   e. undeterminable.

9 Suppose a bank has $500 million in deposits and a required reserve ratio of 10 percent. Then its required reserves are
- a. $ 450 million
- b. $ 50 million
- c. $ 10 million
- d. $ 5 million

10. Suppose a banking system has a required reserve ratio of 0.10. What is the maximum amount that the money supply could increase in response to a $2 billion increase in reserves for the whole banking system?
- a. $ 2 billion
- b. $ 4 billion
- c. $ 20 billion
- d. $ 200 million

11. Suppose a bank has $100 million in deposits, a required reserve ratio of 5 percent, and reserves of $7 million. Then it has excess reserves of
- a. $ 12 million
- b. $ 7 million
- c. $ 5 million
- d. $ 2 million
- e. none of the above

12. If the Fed sells bonds, then it is engaging in
- a. contractionary monetary policy.
- b. contractionary fiscal policy.
- c. expansionary monetary policy.
- d. expansionary fiscal policy.

13. Which of the following are Federal Reserve Bank open market transactions?
- a. purchases of commercial stocks in the stock exchange.
- b. loans to commercial banks by the Fed.
- c. the sale of government bonds by the Fed.
- d. changes in the required reserve ratio .
- e. c and d.

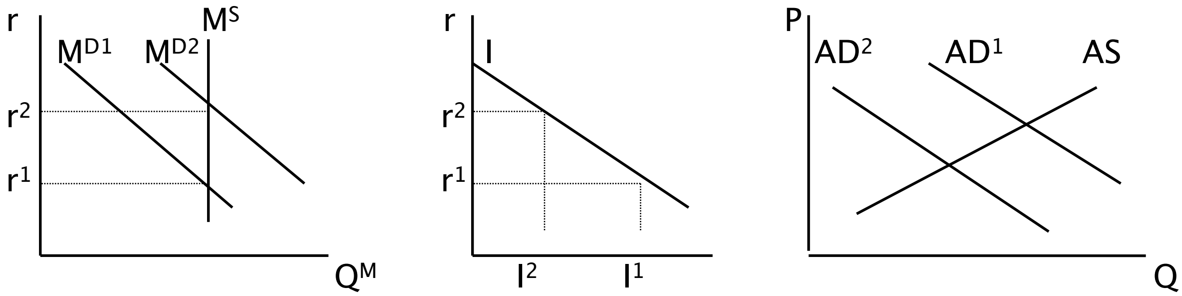
14. Lowering the discount rate has the effect of
- a. changing required reserve into excess reserves
- b. changing excess reserves into required reserves
- c. forcing commercial banks to increase lending
- d. making it less expensive for banks to borrow from the Federal Reserve.

15. A decrease in the money supply usually;
- a. increases the interest rate and increases aggregate demand
- b. increases the interest rate and decreases aggregate demand
- c. decreases the interest rate and increases aggregate demand
- d. decreases the interest rate and decreases aggregate demand

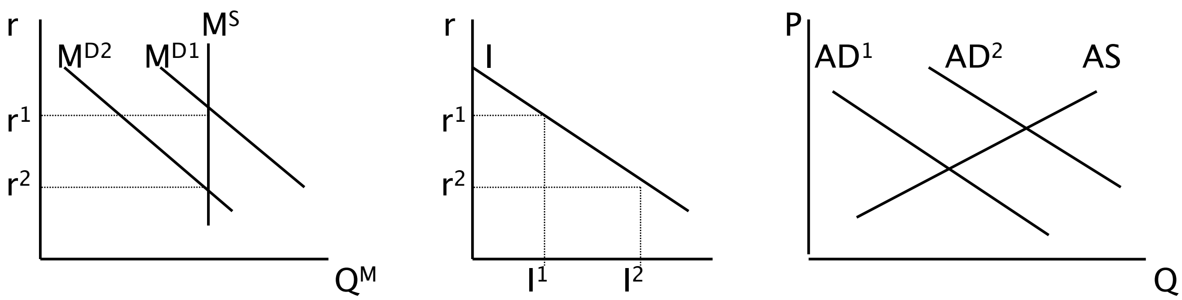
16. Which of the following correctly lists the three ways to **raise** the money supply?
- a. raise the reserve requirement, increase the discount rate, sell bonds
- b. raise the reserve requirement, increase the discount rate, buy bonds
- c. lower the reserve requirement, decrease the discount rate, buy bonds
- d. lower the reserve requirement, increase the discount rate, sell bonds

Econ 202 Homework 5 – Monetary Policy - 25 Points

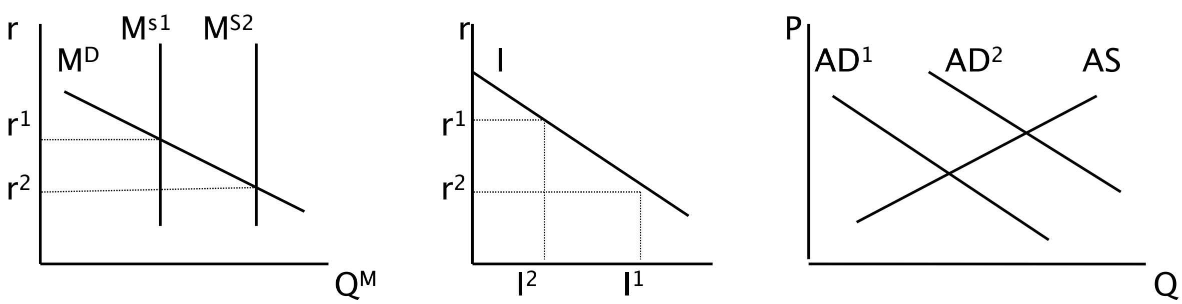
A



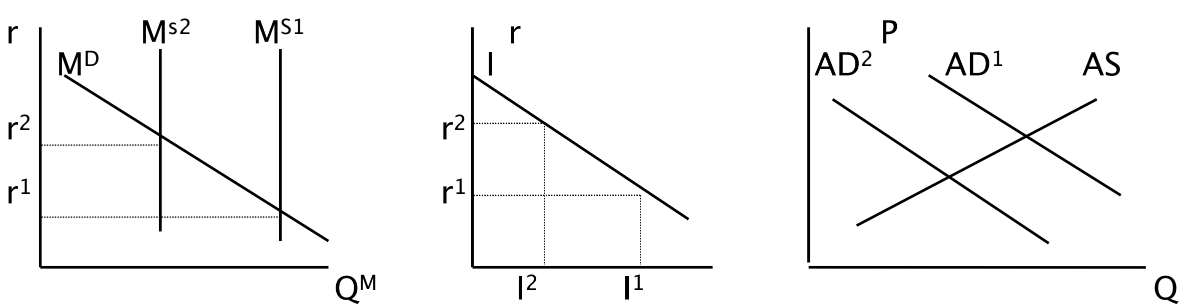
B



C



D



17. Which graph above illustrates the impact of the Fed raising the required reserve ratio?
    a. A
    b. B
    c. C
    d. D

18. Which graph above illustrates the impact of the Fed lowering the required reserve ratio?
    a. A
    b. B
    c. C
    d. D

19. Which graph above illustrates the impact of the Fed selling U.S. bonds?
    a. A
    b. B
    c. C
    d. D

20. Which graph above illustrates the impact of the Fed buying U.S. bonds?
    a. A
    b. B
    c. C
    d. D

21. Which graph above illustrates the impact of the Fed raising the Prime Rate?
    a. A
    b. B
    c. C
    d. D

22. Which graph above illustrates the impact of the Fed lowering the Discount Rate?
    a. A
    b. B
    c. C
    d. D

23. Which graph above illustrates the impact of people increasing the amount of money in their ATM and debit accounts in order to fund purchases?
    a. A
    b. B
    c. C
    d. D

24. Which graph above illustrates the impact of people saving more money?
    a. A
    b. B
    c. C
    d. D

25. Which graph above illustrates the impact of people withdrawing cash in anticipation of an economic crisis?

a. A
b. B
c. C
d. D