Note: Submit your answers using Blackboard Learn. Notice that the order in which the answers appear [i.e., A), B), C), and D)] are different in this PDF file and in Blackboard Learn.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) In the simple deposit expansion model, if the required reserve ratio is 20 percent and the Fed increases reserves by $100, checkable deposits can potentially expand by

    A) $100.   B) $250.   C) $500.   D) $1,000.

1) _____

2) Goal independence is the ability of _____ to set monetary policy _____.

    A) Congress; instruments   B) the central bank; instruments
    C) the central bank; goals   D) Congress; goals

2) _____

3) The first country to adopt inflation targeting was

    A) New Zealand.   B) Canada.
    C) Australia.   D) the United Kingdom.

3) _____

4) The monetary base minus currency in circulation equals

    A) the borrowed base.   B) reserves.
    C) discount loans.   D) the nonborrowed base.

4) _____

5) When the Fed supplies the banking system with an extra dollar of reserves, deposits _____ by _____ than one dollar—a process called multiple deposit creation.

    A) increase; less   B) decrease; more   C) increase; more   D) decrease; less

5) _____

6) In the simple deposit expansion model, if the Fed purchases $100 worth of bonds from a bank that previously had no excess reserves, deposits in the banking system can potentially increase by

    A) $10.
    B) $100.
    C) $100 times the reciprocal of the required reserve ratio.
    D) $100 times the required reserve ratio.

6) _____

7) The monetary base consists of

    A) currency in circulation and the U.S. Treasury's monetary liabilities.
    B) reserves and Federal Reserve Notes.
    C) currency in circulation and reserves.
    D) currency in circulation and Federal Reserve notes.

7) _____

8) In the market for reserves, when the federal funds interest rate is below the discount rate, the supply curve of reserves is

    A) horizontal.   B) negatively sloped.
    C) vertical.   D) positively sloped.

8) _____

9) The monetary base declines when

    A) the Fed sells securities.   B) the Fed extends discount loans.
    C) float increases.   D) Treasury deposits at the Fed decrease.

9) _____

10) Everything else held constant, a decrease in holdings of excess reserves will mean

10) _____

    A) a decrease in the money supply.   B) an increase in discount loans.

    C) a decrease in checkable deposits.   D) an increase in the money supply.

11) The monetary policy strategy that suffers a lack of transparency is

11) _____

    A) monetary targeting.   B) inflation targeting.

    C) exchange–rate targeting.   D) the implicit nominal anchor.

12) When the Federal Reserve purchases a government bond from a bank, reserves in the banking system _____ and the monetary base _____, everything else held constant.

12) _____

    A) decrease; increases   B) decrease; decreases

    C) increase; decreases   D) increase; increases

13) When a bank sells a government bond to the Federal Reserve, reserves in the banking system _____ and the monetary base _____, everything else held constant.

13) _____

    A) increase; increases   B) decrease; increases

    C) increase; decreases   D) decrease; decreases

14) In the market for reserves, if the federal funds rate is between the discount rate and the interest rate paid on excess reserves, a _____ in the reserve requirement _____ the demand for reserves, lowering the federal funds interest rate, everything else held constant.

14) _____

    A) rise; decreases   B) decline; decreases

    C) decline; increases   D) rise; increases

15) The mandate for the monetary policy goals that has been given to the Federal Reserve System is an example of a _____ mandate.

15) _____

    A) primary   B) dual   C) hierarchical   D) secondary

16) If the Fed decides to reduce bank reserves, it can

16) _____

    A) sell government bonds.   B) print more currency.

    C) purchase government bonds.   D) extend discount loans to banks.

17) The Federal Reserve System was created to

17) _____

    A) promote rapid economic growth.   B) make it easier to finance budget deficits.

    C) promote financial market stability.   D) lower the unemployment rate.

18) Exchange rates are determined in

18) _____

    A) the money market.   B) the foreign exchange market.

    C) the stock market.   D) the capital market.

19) The decision by inflation targeters to choose inflation targets _____ zero reflects the concern of monetary policymakers that particularly _____ inflation can have substantial negative effects on real economic activity.

19) _____

    A) below; high   B) above; low   C) below; low   D) above; high

20) When the value of the dollar changes from £0.5 to £0.75, then the British pound has _____ and the U.S. dollar has _____.

20) _____

    A) depreciated; depreciated   B) depreciated; appreciated

    C) appreciated; appreciated   D) appreciated; depreciated

21) _____ in the foreign interest rate causes the demand for domestic assets to _____ and the domestic currency to depreciate, everything else held constant.
    A) A decrease; decrease
    B) A decrease; increase
    C) An increase; decrease
    D) An increase; increase

22) When a bank buys a government bond from the Federal Reserve, reserves in the banking system _____ and the monetary base _____, everything else held constant.
    A) decrease; increases
    B) decrease; decreases
    C) increase; increases
    D) increase; decreases

23) Open market sales shrink _____ thereby lowering _____.
    A) the money base; the money multiplier
    B) the money multiplier; reserves and the monetary base
    C) reserves and the monetary base; the money supply
    D) the money multiplier; the money supply

24) Everything else held constant, the vertical section of the supply curve of reserves is shortened when the
    A) federal funds rate rises.
    B) discount rate decreases.
    C) discount rate increases.
    D) federal funds rate falls.

25) In the simple deposit expansion model, if the Fed extends a $100 discount loan to a bank that previously had no excess reserves, the bank can now increase its loans by
    A) $10.
    B) $100.
    C) $100 times the reciprocal of the required reserve ratio.
    D) $100 times the required reserve ratio.

26) A central feature of monetary policy strategies in all countries is the use of a nominal variable that monetary policymakers use as an intermediate target to achieve an ultimate goal such as price stability. Such a variable is called a nominal
    A) anchor.
    B) guideline.
    C) tether.
    D) benchmark.

27) In the simple deposit expansion model, if the Fed extends a $100 discount loan to a bank that previously had no excess reserves, deposits in the banking system can potentially increase by
    A) $10.
    B) $100.
    C) $100 times the reciprocal of the required reserve ratio.
    D) $100 times the required reserve ratio.

28) The exchange rate is
    A) the value of a currency relative to inflation.
    B) the price of one currency relative to another.
    C) the change in the value of money over time.
    D) the price of one currency relative to gold.

29) An increase in the domestic interest rate causes the demand for domestic assets to shift to the _____ and the domestic currency to _____, everything else held constant.
    A) right; depreciate
    B) right; appreciate
    C) left; depreciate
    D) left; appreciate

30) The theory of PPP suggests that if one country's price level rises relative to another's, its currency should

    A) depreciate in the long run.   B) appreciate in the short run.

    C) appreciate in the long run.   D) depreciate in the short run.

30) _____

31) Decisions by depositors to increase their holdings of _____, or of banks to hold excess reserves will result in a _____ expansion of deposits than the simple model predicts.

    A) deposits; larger   B) currency; smaller

    C) deposits; smaller   D) currency; larger

31) _____

32) In the market for reserves, when the federal funds rate is above the interest rate paid on excess reserves, the demand curve for reserves is _____.

    A) negatively sloped   B) vertical

    C) positively sloped   D) horizontal

32) _____

33) Discount policy affects the money supply by affecting the volume of _____ and the _____.

    A) borrowed reserves; monetary base   B) excess reserves; money multiplier

    C) excess reserves; monetary base   D) borrowed reserves; money multiplier

33) _____

34) Everything else held constant, in the market for reserves, when the federal funds rate equals the interest rate paid on excess reserves, raising the interest rate paid on excess reserves

    A) has an indeterminate effect of the federal funds rate.

    B) lowers the federal funds rate.

    C) increases the federal funds rate.

    D) has no effect on the federal funds rate.

34) _____

35) If the required reserve ratio is 20 percent, the simple deposit multiplier is

    A) 10.0.   B) 5.0.   C) 4.0.   D) 2.5.

35) _____

36) Under monetary targeting, a central bank announces an annual growth rate target for _____.

    A) GDP   B) a reserve aggregate

    C) the monetary base   D) a monetary aggregate

36) _____

37) On July 25, 2012, one U.S. dollar traded on the foreign exchange market for about 3.33 Romanian new lei. Therefore, one Romanian new lei would have purchased about _____ U.S. dollars.

    A) 0.30   B) 1.86   C) 2.86   D) 3.33

37) _____

38) The monetary liabilities of the Federal Reserve include

    A) currency in circulation and discount loans.

    B) currency in circulation and reserves.

    C) government securities and reserves.

    D) government securities and discount loans.

38) _____

39) Individuals that lend funds to a bank by opening a checking account are called

    A) policyholders.   B) partners.   C) debt holders.   D) depositors.

39) _____

40) If reserves in the banking system increase by $100, then checkable deposits will increase by $500 in the simple model of deposit creation when the required reserve ratio is

    A) 0.20   B) 0.05.   C) 0.01.   D) 0.10.

40) _____

41) The Fed does not tightly control the monetary base because it does not completely control   41) _____
    A) the discount rate.   B) borrowed reserves.
    C) open market sales.   D) open market purchases.

42) Everything else held constant, in the market for reserves, when the federal funds rate is 3%,   42) _____
lowering the discount rate from 5% to 4%
    A) raises the federal funds rate.
    B) lowers the federal funds rate.
    C) has an indeterminate effect on the federal funds rate.
    D) has no effect on the federal funds rate.

43) The three players in the money supply process include   43) _____
    A) banks, depositors, and the U.S. Treasury.   B) banks, borrowers, and the central bank.
    C) banks, depositors, and the central bank.   D) banks, depositors, and borrowers.

44) In the market for reserves, if the federal funds rate is above the interest rate paid on excess reserves,   44) _____
an open market sale _____ the _____ of reserves, causing the federal funds rate to increase,
everything else held constant.
    A) increases; demand   B) decreases; supply
    C) increases; supply   D) decreases; demand

45) Higher tariffs and quotas cause a country's currency to _____ in the _____ run, everything   45) _____
else held constant.
    A) depreciate; short   B) depreciate; long
    C) appreciate; short   D) appreciate; long

46) The monetary policy strategy that provides an immediate signal on target achievement is   46) _____
    A) exchange–rate targeting.   B) inflation targeting.
    C) monetary targeting.   D) the implicit nominal anchor.

47) The most common definition that monetary policymakers use for price stability is   47) _____
    A) low and stable inflation.   B) low and stable deflation.
    C) high and stable inflation.   D) an inflation rate of zero percent.

48) The theory of purchasing power parity cannot fully explain exchange rate movements because   48) _____
    A) fiscal policy differs across countries.
    B) some goods are not traded between countries.
    C) all goods are identical even if produced in different countries.
    D) monetary policy differs across countries.

49) An increase in productivity in a country will cause its currency to _____ because it can produce   49) _____
goods at a _____ price, everything else held constant.
    A) appreciate; lower   B) depreciate; higher
    C) appreciate; higher   D) depreciate; lower

50) Everything else held constant, in the market for reserves, when the federal funds rate is 1%, increasing the interest rate paid on excess reserves from 1% to 2%

    A) has an indeterminate effect on the federal funds rate.
    B) has no effect on the federal funds rate.
    C) lowers the federal funds rate.
    D) raises the federal funds rate.

50) _____

51) Critics of the current system of Fed independence contend that

    A) the current system is undemocratic.
    B) the Board of Governors is held responsible for policy missteps.
    C) the president has too much control over monetary policy on a day–to–day basis.
    D) voters have too much say about monetary policy.

51) _____

52) _____ in the domestic interest rate causes the demand for domestic assets to decrease and the domestic currency to _____, everything else held constant.

    A) An increase; appreciate
                    B) A decrease; depreciate
    C) A decrease; appreciate
                    D) An increase; depreciate

52) _____

53) The relationship between borrowed reserves, the nonborrowed monetary base, and the monetary base is

    A) $BR = MB_n - MB$.
                    B) $MB = BR - MB_n$.
    C) $BR = MB - MB_n$.
                    D) $MB = MB_n - BR$.

53) _____

54) If reserves in the banking system increase by $100, then checkable deposits will increase by $1000 in the simple model of deposit creation when the required reserve ratio is

    A) 0.01.   B) 0.05.   C) 0.20.   D) 0.10.

54) _____

55) Monetary policy is considered time–inconsistent because

    A) policymakers are tempted to pursue discretionary policy that is more expansionary in the short run.
    B) policymakers are tempted to pursue discretionary policy that is more contractionary in the short run.
    C) of the lag times associated with the implementation of monetary policy and its effect on the economy.
    D) of the lag times associated with the recognition of a potential economic problem and the implementation of monetary policy.

55) _____

56) Everything else held constant, when a country's currency depreciates, its goods abroad become _____ expensive while foreign goods in that country become _____ expensive.

    A) more; less   B) more; more   C) less; more   D) less; less

56) _____

57) Which of the following is a potential operating instrument for the central bank?

    A) The M1 money supply
                    B) The discount rate
    C) Nominal GDP
                    D) The monetary base

57) _____

58) In the market for reserves, if the federal funds rate is above the interest rate paid on excess reserves, an open market purchase _____ the _____ of reserves which causes the federal funds rate to fall, everything else held constant.

    A) increases; supply
                    B) decreases; demand
    C) increases; demand
                    D) decreases; supply

58) _____

59) Inflation results in   59) _____
    A) lower nominal interest rates.
    B) difficulty interpreting relative price movements.
    C) ease of comparing prices over time.
    D) ease of planning for the future.

60) The ratio that relates the change in the money supply to a given change in the monetary base is   60) _____
called the
    A) required reserve ratio.   B) money multiplier.
    C) discount rate.   D) deposit ratio.