

Chapter 27

The Monetary System

Test A

1. Barter
 - a. is more efficient than money.
 - b. makes trading easier than money.
 - c. allows greater specialization than money.
 - d. None of the above is correct.

ANSWER: d. None of the above is correct.

TYPE: M KEY1: D OBJECTIVE: 1 RANDOM: Y

2. Which of the following best illustrates the unit of account function of money?
 - a. You list prices for candy sold on your Web site, sweet-treats.com, in dollars.
 - b. You pay for tickets to a WNBA game with dollars.
 - c. You keep \$10 in your backpack for emergencies.
 - d. None of the above is correct.

ANSWER: a. You list prices for candy sold on your Web site, sweet-treats.com, in dollars.

TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3. U.S. currency is currently
 - a. commodity money with no intrinsic value.
 - b. fiat money with no intrinsic value.
 - c. commodity money with intrinsic value.
 - d. fiat money with intrinsic value.

ANSWER: b. fiat money with no intrinsic value.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4. Since the U.S. government has decreed that U.S. currency is legal tender,
 - a. people may not legally make trades with anything else.
 - b. people are more likely to accept the dollar as a medium of exchange.
 - c. the government must hold enough gold to redeem all currency.
 - d. All of the above are correct.

ANSWER: b. people are more likely to accept the dollar as a medium of exchange.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5. M1 includes
- a. savings deposits.
 - b. money market deposit accounts.
 - c. currency.
 - d. All of the above are correct.

ANSWER: c. currency.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

6. Credit cards are
- a. a method of deferring payment.
 - b. used as a medium of exchange.
 - c. part of the M2 money supply.
 - d. equivalent to debit cards.

ANSWER: a. a method of deferring payment.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

7. Which of the following might explain why the United States has so much currency per person?
- a. Currency may be a preferable store of wealth for criminals.
 - b. U.S. citizens are holding a lot of foreign currency.
 - c. People use credit and debit cards more frequently.
 - d. All of the above help explain the abundance of currency.

ANSWER: a. Currency may be a preferable store of wealth for criminals.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

8. Which Federal Reserve Bank president is always a voting member of the FOMC?
- a. Boston
 - b. New York
 - c. Chicago
 - d. All of the above are correct.

ANSWER: b. New York

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

9. The Federal Open-market Committee is made up of
- 5 of the 12 presidents of the Federal Reserve Regional banks, and the 7 members of the Board of Governors.
 - the 12 presidents of the Federal Reserve Regional banks, and the Chair of the Board of Governors.
 - the 12 presidents of the Federal Reserve Regional banks, and the 7 members of the Board of Governors.
 - 7 of the 12 presidents of the Federal Reserve Regional banks, and the 5 members of the Board of Governors.

ANSWER: a. 5 of the 12 presidents of the Federal Reserve Regional banks, and the 7 members of the Board of Governors.

TYPE: M DIFFICULTY: 3 KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

10. The Fed can influence unemployment in
- the short run, but not the long run.
 - the short and long run.
 - the long run, but not the short run.
 - neither the short nor long run.

ANSWER: a. the short run, but not the long run.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

11. On a bank's T-account,
- deposits are assets, reserves are liabilities.
 - reserves are assets, deposits are liabilities.
 - both deposits and reserves are assets.
 - both deposits and reserves are liabilities.

ANSWER: b. reserves are assets, deposits are liabilities.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

12. If the reserve ratio is 5 percent and a bank receives a new deposit of \$500, this bank
- must increase its required reserves by \$500.
 - will initially see its total reserves increase by \$25.
 - will be able to make a new loan of \$475.
 - All of the above are correct.

ANSWER: c. will be able to make a new loan of \$475.

TYPE: M DIFFICULTY: 3 KEY1: E SECTION: 3 OBJECTIVE: 3 RANDOM: Y

Last Bank of Hope			
Assets		Liabilities	
Reserves	\$2,000	Deposits	\$10,000
Loans	\$8,000		

13. If the reserve requirement is 10 percent, the Last Bank of Hope
- is holding excess reserves of \$1,000.
 - is in a position to make a new loan of \$2000.
 - has required reserves of \$2,000.
 - has less reserves than required.

ANSWER: a. is holding excess reserves of \$1,000

TYPE: M DIFFICULTY: 3 KEY1: E SECTION: 3 OBJECTIVE: 3 INSTRUCTION: 2 RANDOM: N

14. If the Last Bank of Hope is holding only the amount of reserves required, the reserve requirement is
- 100 percent.
 - 80 percent.
 - 20 percent.
 - 12.5 percent.

ANSWER: c. 20 percent.

TYPE: M KEY1: E SECTION: 3 OBJECTIVE: 3 INSTRUCTION: 2 RANDOM: N

15. If the reserve ratio is 25 percent, the money multiplier is
- 2.
 - 4.
 - 5.
 - 8.

ANSWER: b. 4.

TYPE: M KEY1: E SECTION: 3 OBJECTIVE: 3 RANDOM: Y

16. If the reserve ratio is 15 percent, an additional \$2,000 of reserves will increase the money supply by
- \$1,500.
 - \$3,000.
 - \$13,150.
 - \$13,333.

ANSWER: d. \$13,333.

TYPE: M KEY1: E SECTION: 3 OBJECTIVE: 4 RANDOM: Y

17. Which list contains only actions that decrease the money supply?
- a. lower the discount rate, make open-market purchases
 - b. lower the discount rate, make open-market sales
 - c. raise the discount rate, make open-market purchases
 - d. raise the discount rate, make open-market sales

ANSWER: d. raise the discount rate, make open-market sales

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

18. To increase the money supply, the Fed could
- a. sell government bonds.
 - b. decrease the discount rate.
 - c. increase the reserve requirement.
 - d. None of the above is correct.

ANSWER: b. decrease the discount rate.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

19. In a fractional reserve banking system, an increase in reserve requirements
- a. increases both the money multiplier and the money supply.
 - b. increases the money multiplier, but decreases the money supply.
 - c. decreases both the money multiplier and the money supply.
 - d. decreases the money multiplier, but increases the money supply.

ANSWER: c. decreases both the money multiplier and the money supply.

TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 4 RANDOM: Y

20. When the Fed increases the discount rate, banks will borrow
- a. less, banks will lend more, and the money supply will decrease.
 - b. less, banks will lend less, and the money supply will decrease.
 - c. more, banks will lend more, and the money supply will increase.
 - d. more, banks will lend less, and the money supply will decrease.

ANSWER: b. less, banks will lend less, and the money supply will decrease.

TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 4 RANDOM: Y

21. The interest rate the Fed charges on loans it makes to banks is called the
- discount rate.
 - federal funds rate.
 - prime rate.
 - FOMC rate.

ANSWER: a. discount rate.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

22. During the stock market crash of October 1987, the Fed
- nearly created a financial panic by not acting as a lender of last resort.
 - nearly created a financial panic by raising the discount rate.
 - prevented a financial panic by providing liquidity to the financial system.
 - prevented a financial panic by raising reserve requirements.

ANSWER: c. prevented a financial panic by providing liquidity to the financial system.

TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 4 RANDOM: Y

23. If the reserve ratio is 10 percent, and banks do not hold excess reserves, when the Fed purchases \$10 million of government bonds, bank reserves
- decrease by \$10 million and the money supply eventually decreases by \$100 million.
 - decrease by \$10 million and the money supply eventually increases by \$100 million.
 - increase by \$10 million and the money supply eventually decreases by \$100 million.
 - increase by \$10 million and the money supply eventually increases by \$100 million.

ANSWER: d. increase by \$10 million and the money supply eventually increases by \$100 million.

TYPE: M DIFFICULTY: 3 KEY1: E SECTION: 3 OBJECTIVE: 4 RANDOM: Y

24. If banks choose to hold more excess reserves,
- required reserves in the banking system increase.
 - the money multiplier will increase.
 - the discount rate will increase.
 - the money supply falls.

ANSWER: d. the money supply falls.

TYPE: M KEY1: C DIFFICULTLY: 3 SECTION: 3 OBJECTIVE: 4 RANDOM: Y

25. The Fed can directly protect a bank during a bank run by
- increasing reserve requirements.
 - selling government bonds to the bank.
 - lending reserves to the bank.
 - doing any of the above.

ANSWER: c. lending reserves to the bank.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

1 ANSWER: d. None of the above is correct.

TYPE: M KEY1: D OBJECTIVE: 1 RANDOM: Y

2 ANSWER: a. You list prices for candy sold on your Web site, sweet-treats.com, in dollars.

TYPE: M KEY1: C SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3 ANSWER: b. fiat money with no intrinsic value.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4 ANSWER: b. people are more likely to accept the dollar as a medium of exchange.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5 ANSWER: c. currency.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

6 ANSWER: a. a method of deferring payment.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

7 ANSWER: a. Currency may be a preferable store of wealth for criminals.

TYPE: M KEY1: D SECTION: 1 OBJECTIVE: 1 RANDOM: Y

8 ANSWER: b. New York

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

9 ANSWER: a. 5 of the 12 presidents of the Federal Reserve Regional banks, and the 7 members of the Board of Governors.

TYPE: M DIFFICULTY: 3 KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

10 ANSWER: a. the short run, but not the long run.

TYPE: M KEY1: D SECTION: 2 OBJECTIVE: 2 RANDOM: Y

11 ANSWER: b. reserves are assets, deposits are liabilities.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 3 RANDOM: Y

12 ANSWER: c. will be able to make a new loan of \$475.

TYPE: M DIFFICULTY: 3 KEY1: E SECTION: 3 OBJECTIVE: 3 RANDOM: Y

13 ANSWER: a. is holding excess reserves of \$1,000

TYPE: M DIFFICULTY: 3 KEY1: E SECTION: 3 OBJECTIVE: 3 INSTRUCTION: 2 RANDOM: N

14 ANSWER: c. 20 percent.

TYPE: M KEY1: E SECTION: 3 OBJECTIVE: 3 INSTRUCTION: 2 RANDOM: N

15 ANSWER: b. 4.

TYPE: M KEY1: E SECTION: 3 OBJECTIVE: 3 RANDOM: Y

16 ANSWER: d. \$13,333.

TYPE: M KEY1: E SECTION: 3 OBJECTIVE: 4 RANDOM: Y

17 ANSWER: d. raise the discount rate, make open-market sales

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

18 ANSWER: b. decrease the discount rate.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

19 ANSWER: c. decreases both the money multiplier and the money supply.

TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 4 RANDOM: Y

20 ANSWER: b. less, banks will lend less, and the money supply will decrease.

TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 4 RANDOM: Y

21 ANSWER: a. discount rate.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y

22 ANSWER: c. prevented a financial panic by providing liquidity to the financial system.

TYPE: M KEY1: C SECTION: 3 OBJECTIVE: 4 RANDOM: Y

23 ANSWER: d. increase by \$10 million and the money supply eventually increases by \$100 million.

TYPE: M DIFFICULTY: 3 KEY1: E SECTION: 3 OBJECTIVE: 4 RANDOM: Y

24 ANSWER: d. the money supply falls.

TYPE: M KEY1: C DIFFICULTLY: 3 SECTION: 3 OBJECTIVE: 4 RANDOM: Y

25 ANSWER: c. lending reserves to the bank.

TYPE: M KEY1: D SECTION: 3 OBJECTIVE: 4 RANDOM: Y