Name: ________________________ Class: ___________________ Date: __________ ID: A

Money, Banking, and the Fed Make Up Exam

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. A stock in a company is:
   A. a share of ownership of a company held by a shareholder.
   B. an IOU that pays interest.
   C. a portion of a firm's profits paid to stock owners.
   D. part of private savings.
   E. the interest payment on borrowing.
2. A budget surplus would exist when which of the following occurs?
   A. Taxes are greater than government spending.
   B. Taxes are less than government spending.
   C. Taxes are less than government spending plus investment.
   D. Investment is less than government spending less taxes.
   E. Consumption spending is greater than savings.

	Northlandia	Southlandia
Investment spending as a percentage of GDP	25%	30%
Private savings as a percentage of GDP	10%	35%
Capital inflow as a percentage of GDP	5%	-5%

Table 22-1: Investment Spending, Private Spending, and Capital Inflows

3. Use **Table 22-1.** Northlandia has a ______ while Southlandia has a ________.
   A. balanced budget; budget deficit
   B. budget deficit; balanced budget
   C. budget surplus; balanced budget
   D. balanced budget; balanced budget
   E. budget surplus; budget deficit
4. Financial markets make the process of borrowing large amounts of money easier because they simplify the negotiation process between borrowers and lenders. This is an example of:
   A. reducing transaction costs.
   B. reducing risk.
   C. providing liquidity.
   D. acting as a lender of last resort.
   E. crowding out.
5. An economy that lacks a medium of exchange is a(n):
   A. anarchist system.
   B. barter system.
   C. communist system.
   D. expanding system.
   E. capitalist system
6. When we put a price on a meal, money is playing the role of:
   A. medium of exchange.
   B. unit of account.
   C. barter token.
   D. store of value.
   E. factor of production.

Components of the Money System (billions of dollars)	
Currency	$100
Checkable deposits	300
Travelers checks	50
Small-denomination time deposits	700
Savings deposits	75
Money market mutual funds (individuals)	500
Large-denomination time deposits	200
Table 23-2: Components of the Money System	

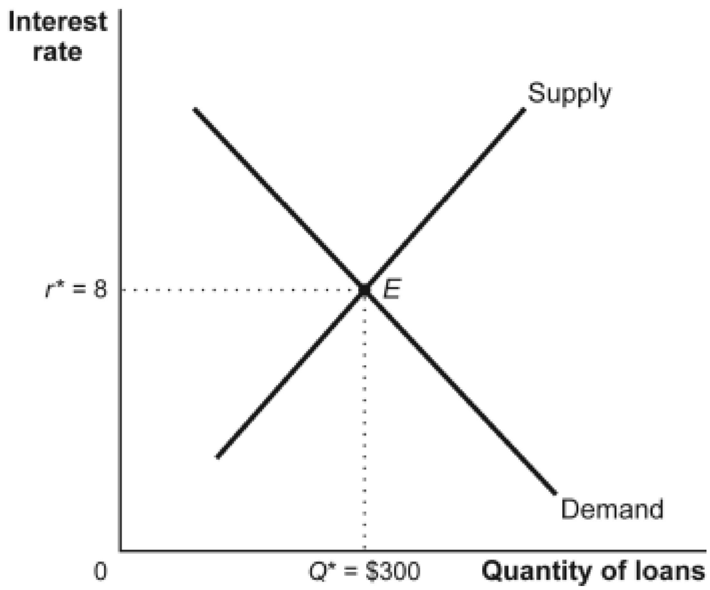
7. Use **Table 23-2.** The money supply measured by M2 is:
   A. $450 billion.
   B. $1,425 billion.
   C. $1,725 billion.
   D. $2,075 billion.
   E. $1,200 billion.
8. In order for an asset to be considered money, it must be:
   A. able to serve as medium of exchange, standard unit of account, and store of value.
   B. available in sufficient quantities and designated as such by law.
   C. fiat money also.
   D. backed by some precious commodity such as gold.
   E. also useful as a commodity.
9. If the interest rate is 5%, the amount received one year from now as a result of lending $100 today is
   A. $90.
   B. $95.
   C. $100.
   D. $105.
   E. $110.
10. The reserve ratio is defined as the ratio of:
    A. bank assets to bank liabilities.
    B. bank assets to bank reserves.
    C. customers' bank deposits to bank assets.
    D. bank reserves to customers' bank deposits.
    E. bank reserves to bank assets.
11. The existence of banks:
    A. results in the money supply being larger than the amount of currency in circulation.
    B. inhibits the creation of money.
    C. makes the money supply equal to the amount of currency in circulation.
    D. results in the money supply being less than the amount of currency in circulation.
    E. creates an economic system that is inferior to the barter economy.

Scenario 25-2: Money Creation
The reserve requirement is 20%, and Leroy deposits his $1,000 check received as a graduation gift in his checking account. The bank does NOT want to hold excess reserves.

12. Use **Scenario 25-2.** How much can the bank loan based on the $1,000 deposit?
    A. $1,000
    B. $200
    C. $800
    D. $0
    E. $900

13. If the required reserve ratio rises:
    A. the money multiplier will also rise.
    B. the banking system will experience a contraction in its level of bank deposits.
    C. the amount of reserves in the banking system will decrease.
    D. excess reserves will also rise.
    E. the money supply will expand.
14. All of the following are responsibilities of the Fed EXCEPT:
    A. control the monetary base.
    B. set the reserve requirement.
    C. oversee and regulate the banking system.
    D. set the discount rate.
    E. mint bills and coins.
15. If the Fed conducts a $10 million open-market sale and the reserve requirement is 20%, the maximum change in the money supply is:
    A. an increase of $10 million.
    B. a decrease of $10 million.
    C. a decrease of $8 million.
    D. a decrease of $50 million.
    E. an increase of $50 million.
16. If the Federal Reserve wants to increase the monetary base, the Fed might:
    A. engage in an open market purchase of Treasury bills.
    B. increase the discount rate.
    C. increase the reserve ratio.
    D. decrease personal income taxes.
    E. increase the federal funds rate.
17. When banks borrow and lend reserves from each other, they are participating in the ______ market.
    A. subprime mortgage
    B. long-term capital
    C. money
    D. federal funds
    E. foreign exchange
18. If a checking account has an interest rate of 1% and a government Treasury bill has an interest rate of 2%, the opportunity cost of holding the checking account as money is:
    A. zero.
    B. 0.02%.
    C. 1%.
    D. 2%.
    E. 3%.
19. The interest earnings one gives up to hold more liquid assets are:
    A. an opportunity cost.
    B. a transactions cost.
    C. an asset of the company.
    D. a liability of the company.
    E. stock dividends.
20. All else equal, a 20% increase in the aggregate price level will increase the quantity of money demanded by:
    A. 20%.
    B. the money multiplier.
    C. 10%.
    D. half the money multiplier.
    E. 20% of the money multiplier.

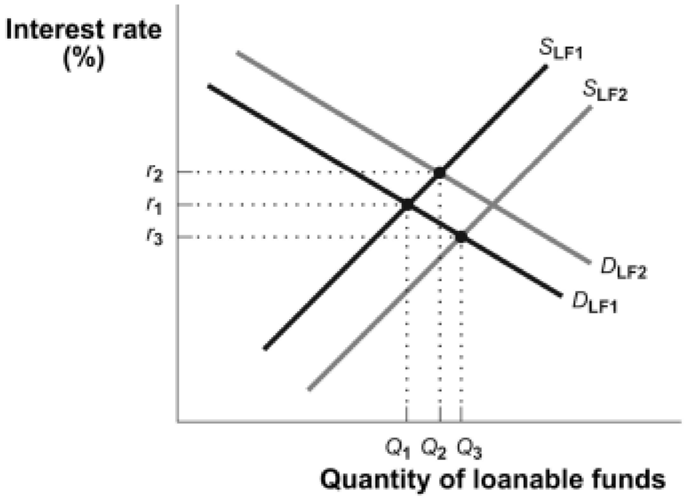
Figure 29-9: Market for Loanable Funds II



21. Use the "**Market for Loanable Funds II" Figure 29-9**. A decrease in savings by the private sector will shift the supply of loanable funds to the:
    A. left and increase the interest rate.
    B. right and decrease the interest rate.
    C. right and increase the interest rate.
    D. left and decrease the interest rate.
    E. left and have no impact on the interest rate.
22. An increase in the level of business optimism will generally:
    A. not change the loanable funds demand curve.
    B. shift the loanable funds demand curve to the left.
    C. cause a movement both down the loanable funds demand curve.
    D. shift the loanable funds demand curve to the right.
    E. the supply of loanable funds to increase.
23. A decrease in the demand for loanable funds would most likely be caused by a(n):
    A. decrease in the market interest rate.
    B. decrease in corporate income tax rates.
    C. decrease in the amount of expected business opportunities.
    D. increase in the amount of expected business opportunities.
    E. decrease in private savings.

Name: ________________________ **ID: A**

Figure 29-10: Crowding Out



24. Use the "**Crowding Out" Figure 29-10.** All else equal, if the demand for loanable funds curve shifts to the right, then it will result in:
    A. an increase in the interest rate and the total amount of borrowing in the funds market.
    B. an increase in the interest rate and a decrease in the total amount of borrowing in the funds market.
    C. a decrease in the interest rate and the total amount of borrowing in the funds market.
    D. a decrease in the interest rate and an increase in the total amount of borrowing in the funds market.
    E. an increase in the interest rate and no change in the total amount of borrowing in the funds market.
25. If the interest rate is 10%, the present value of $1 paid to you one year from now is
    A. $0.
    B. $0.89.
    C. $0.91.
    D. $1.
    E. more than $1.
26. What is the present value of $100 realized two years from now if the interest rate is 10%?
    A. $80
    B. $83
    C. $90
    D. $100
    E. $110
27. In the U.S., the institution that is charged with determining the size of the monetary base and with regulating the banking system is the:
    A. Treasury Department.
    B. Commerce Department.
    C. U.S. Senate Banking Committee.
    D. Federal Reserve.
    E. President's Council of Economic Advisors.

28. The Federal Reserve System is the _______ for the United States.
    A. government entity that collects taxes.
    B. government-owned bank
    C. U.S. Treasury Bank
    D. largest private banking corporation in the world.
    E. central bank
29. Who oversees the Federal Reserve System?
    A. the presidents of the Regional Federal Reserve Banks
    B. the President of the United States
    C. the Federal Open Market Committee
    D. the Board of Governors of the Federal Reserve System
    E. the Reconstruction Finance Corporation
30. People forgo interest and hold money:
    A. because they are required to.
    B. to reduce their transactions costs.
    C. because there are no substitutes for money.
    D. because banks are too risky.
    E. to increase the cost of purchasing goods and services.

Problem

1. Assume that Australia and New Zealand are trading partners. Australia's economy is currently in recession.
   (a) Now assume that Australia begins to recover from its recession. Using a correctly labeled graph of aggregate demand and aggregate supply for New Zealand, show the impact of Australia's rising income on each of the following in the short run.
      (i) Aggregate demand in New Zealand. Explain.
      (ii) Output in New Zealand.
   (b) Using a correctly labeled graph of the money market for New Zealand, show the effect of the output change in part (a)(ii) on the following.
      (i) Demand for money. Explain.
      (ii) The nominal interest rate
   (c) Assume that the price level in New Zealand rises. Given your answer to part (b)(ii), explain what will happen to real interest rates.
   (d) Although recovering, Australia remains in recession and its government takes no action. Indicate whether each of the following curves will shift to the left, shift to the right, or remain unchanged in the long run in Australia.
      (i) Aggregate supply
      (ii) Aggregate demand