Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

1. At one time, the country of Sylvania had no banks, but had currency of $10 million. Then a banking system was established with a reserve requirement of 20 percent. The people of Sylvania now keep half their money in the form of currency and half in the form of bank deposits. If banks do not hold excess reserves, how much currency do the people of Sylvania now hold?
   a. $2 million
   b. $5 million
   c. $8.33 million
   d. $9.09 million

2. If you deposit $3,000 into First Hawkeye Bank, the
   a. bank's required reserves increase by the reserve ratio times $3,000.
   b. bank will be able to lend out $3,000 times the reserve ratio.
   c. bank initially sees reserves increase by $0.
   d. All of the above are correct.

3. Today, bank runs are
   a. uncommon because of the high required reserve ratio.
   b. uncommon because of FDIC deposit insurance.
   c. common because of the low required reserve ratio.
   d. common because the FDIC is nearly bankrupt.

4. In 1991 the Federal Reserve lowered the reserve requirement ratio from 12 percent to 10 percent. Other things the same this should have
   a. increased both the money multiplier and the money supply.
   b. decreased both the money multiplier and the money supply.
   c. increased the money multiplier and decreased the money supply.
   d. decreased the money multiplier and increased the money supply.

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

6. The banking system has $10 million in reserves, the reserve requirement is 20 percent, and there are no excess reserves. The public holds $10 million in cash. Then bankers decide that it is prudent to hold some excess reserves, and so begin to hold 25 percent of deposits in the form of reserves. Other things the same, this action will cause the money supply to
   a. change forms, but not size.
   b. fall by $10 million.
   c. fall by $5 million.
   d. fall by $.5 million.
7. If the Fed wanted to increase the money supply, it would make open market purchases and lower the discount rate.

8. The Federal Open Market Committee is made up of the 12 presidents of the Federal Reserve Regional banks, and the Chair of the Board of Governors.

9. Paper money is valuable because it is generally accepted in trade.

10. If the reserve ratio is 10 percent, and banks do not hold excess reserves, when the Fed sells $10 million dollars of bonds to the public, bank reserves decrease by $1 million and the money supply eventually decreases by $10 million.

11. Which of the following is false?
   a. The Fed indirectly controls the money supply.
   b. Banks determine the reserve requirement.
   c. Banks can create money in a fractional reserve banking system.
   d. The Fed can control the level of reserves in the banking system.

12. At one time, the country of Aquilonia had no banks, but had currency of $10 million. Then a banking system was established with a reserve requirement of 20 percent. The people of Aquilonia deposited half of their currency into the banking system. If banks do not hold excess reserves, what is Aquilonia’s money supply now?
   a. $10 million
   b. $12 million
   c. $25 million
   d. $30 million

13. Which of the following lists ranks the Fed’s monetary policy tools from most to least frequently used?
   a. discount rate changes, reserve requirement changes, open market transactions
   b. reserve requirement changes, open market transactions, discount rate changes
   c. open market transactions, discount rate changes, reserve requirement changes
   d. None of the above lists ranks the tools correctly.

14. Suppose a bank has $200,000 in deposits and $190,000 in loans. It has a reserve ratio of
   a. 5 percent
   b. 9.5 percent
   c. 10 percent
   d. None of the above is correct.
15. Money
   a. is more efficient than barter.
   b. makes trades easier.
   c. allows greater specialization.
   d. All of the above are correct.

16. Suppose a bank has a 10 percent reserve ratio, $5,000 in deposits, and it loans out all it can given the reserve ratio.
   a. It has $50 in reserves and $4,950 in loans.
   b. It has $500 in reserves and $4,500 in loans.
   c. It has $555 in reserves and $4,445 in loans.
   d. None of the above is correct.

17. Suppose that the reserve ratio is 10 percent and that a bank has $2,000 in deposits. Its required reserves are
   a. $20.
   b. $200.
   c. $1,880.
   d. $1,800.

18. When the Fed wants to change the money supply, it most frequently
   a. changes the discount rate.
   b. changes the reserve requirement.
   c. conducts open market operations.
   d. issues Federal Reserve notes.

Use the (hypothetical) information in the following table to answer the following Questions.

<table>
<thead>
<tr>
<th>Type of Money</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large time deposits</td>
<td>$80 billion</td>
</tr>
<tr>
<td>Small time deposits</td>
<td>$75 billion</td>
</tr>
<tr>
<td>Demand deposits</td>
<td>$75 billion</td>
</tr>
<tr>
<td>Other checkable deposits</td>
<td>$40 billion</td>
</tr>
<tr>
<td>Savings deposits</td>
<td>$10 billion</td>
</tr>
<tr>
<td>Travelers’ checks</td>
<td>$1 billion</td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>$15 billion</td>
</tr>
<tr>
<td>Currency</td>
<td>$100 billion</td>
</tr>
<tr>
<td>SDRs</td>
<td>$10 billion</td>
</tr>
<tr>
<td>Miscellaneous categories of M2</td>
<td>$25 billion</td>
</tr>
</tbody>
</table>

19. Refer to Table 16-1. What is the M2 money supply?
   a. $125 billion
   b. $341 billion
   c. $421 billion
   d. $431 billion

20. Which list contains only actions that increase the money supply?
   a. make open market purchases, raise the reserve requirement ratio
   b. make open market purchases, lower the reserve requirement ratio
   c. make open market sales, raise the reserve requirement ratio
   d. make open market sales, lower the reserve requirement ratio
21. Which list contains only actions that decrease the money supply?
   a. make open market purchases, raise the reserve requirement ratio
   b. make open market purchases, lower the reserve requirement ratio
   c. make open market sales, raise the reserve requirement ratio
   d. make open market sales, lower the reserve requirement ratio

22. If the reserve ratio is 20 percent, the money multiplier is
   a. 2.
   b. 4.
   c. 5.
   d. 8.

23. In a 100-percent-reserve banking system,
   a. banks can create money by issuing currency.
   b. banks can create money by lending out reserves.
   c. the Fed can increase the money supply with open market sales.
   d. banks hold as many reserves as they hold deposits.

24. If the reserve ratio increased from 10 percent to 20 percent, the money multiplier would
   a. rise from 10 to 20.
   b. rise from 5 to 10.
   c. fall from 10 to 5.
   d. not change.

25. During recessions, banks typically choose to hold more excess reserves relative to their deposits. This action
   a. increases the money multiplier and increases the money supply.
   b. decreases the money multiplier and decreases the money supply.
   c. does not change the money multiplier, but increases the money supply.
   d. does not change the money multiplier, but decreases the money supply.

26. The Fed can influence unemployment in
   a. the short and long run.
   b. the short run, but not the long run.
   c. the long run, but not the short run.
   d. neither the short nor long run.

27. Assume that banks do not hold excess reserves. The banking system has $50 million in reserves and has a
   reserve requirement of 10 percent. The public holds $20 million in currency. Then the public decides to
   withdraw $5 million in currency from the banking system. If the Fed wants to keep the money supply stable
   by changing the reserve requirement, then what will the new reserve requirement be?
   a. 10 percent
   b. 9.1 percent
   c. 9 percent
   d. 8.1 percent

28. If the reserve ratio is 20 percent, and banks do not hold excess reserves, when the Fed sells $40 million of
   bonds to the public, bank reserves
   a. increase by $40 million and the money supply eventually increases by $200 million.
   b. increase by $40 million and the money supply eventually increases by $800 million.
   c. decrease by $40 million and the money supply eventually decreases by $200 million.
   d. decrease by $40 million and the money supply eventually decreases by $800 million.

29. Suppose that the reserve ratio is 5 percent and that a bank has $1,000 in deposits. Its required reserves are
   a. $5.
   b. $50.
   c. $95.
   d. $950.
If the discount rate is raised, banks choose to borrow
   a. more from the Fed so reserves increase.
   b. more from the Fed so reserves decrease.
   c. less from the Fed so reserves increase.
   d. less from the Fed so reserves decrease.

Homework (Chapter 11)
Answer Section

MULTIPLE CHOICE

1. ANS: C DIF: 3 REF: SECTION: 16.3
   OBJ: TYPE: M
2. ANS: A DIF: 2 REF: SECTION: 16.2
   OBJ: TYPE: M
3. ANS: B DIF: 1 REF: SECTION: 16.3
   OBJ: TYPE: M
4. ANS: A DIF: 2 REF: SECTION: 16.2
   OBJ: TYPE: M
5. ANS: B DIF: 1 REF: SECTION: 29.1
   OBJ: TYPE: M
6. ANS: B DIF: 3 REF: SECTION: 16.3
   OBJ: TYPE: M
7. ANS: A DIF: 2 REF: SECTION: 16.3
   OBJ: TYPE: M
8. ANS: A DIF: 2 REF: SECTION: 16.2
   OBJ: TYPE: M
9. ANS: C DIF: 1 REF: SECTION: 16.1
   OBJ: TYPE: M
10. ANS: D DIF: 3 REF: SECTION: 16.3
    OBJ: TYPE: M
11. ANS: B DIF: 1 REF: SECTION: 16.3
    OBJ: TYPE: M
12. ANS: D DIF: 2 REF: SECTION: 16.3
    OBJ: TYPE: M
13. ANS: C DIF: 1 REF: SECTION: 16.3
    OBJ: TYPE: M
    OBJ: TYPE: M
15. ANS: D DIF: 1 REF: SECTION: 16.1
    OBJ: TYPE: M
16. ANS: B DIF: 1 REF: SECTION: 16.3
    OBJ: TYPE: M
17. ANS: B DIF: 1 REF: SECTION: 16.3
    OBJ: TYPE: M
18. ANS: C DIF: 1 REF: SECTION: 16.2
    OBJ: TYPE: M
19. ANS: B DIF: 2 REF: SECTION: 16.1
20. OBJ: TYPE: M
ANS: B
DIF: 2
REF: SECTION: 16.3

21. OBJ: TYPE: M
ANS: C
DIF: 2
REF: SECTION: 16.3

22. OBJ: TYPE: M
ANS: C
DIF: 1
REF: SECTION: 16.3

23. OBJ: TYPE: M
ANS: D
DIF: 1
REF: SECTION: 16.3

24. OBJ: TYPE: M
ANS: C
DIF: 1
REF: SECTION: 16.3

25. OBJ: TYPE: M
ANS: B
DIF: 2
REF: SECTION: 16.3

26. OBJ: TYPE: M
ANS: B
DIF: 2
REF: SECTION: 16.2

27. OBJ: TYPE: M
ANS: B
DIF: 3
REF: SECTION: 16.3

28. OBJ: TYPE: M
ANS: C
DIF: 3
REF: SECTION: 16.3

29. OBJ: TYPE: M
ANS: B
DIF: 1
REF: SECTION: 16.3

30. OBJ: TYPE: M
ANS: D
DIF: 1
REF: SECTION: 16.3