

**MONETARY POLICY
PRACTICE QUESTIONS**

L1-00769 LOS6.28.d

Correctly anticipating the effects of expansionary monetary policy will:

- a. Decrease real output.
- b. Increase real output.
- c. Increase the nominal interest rate.

2.

L1-00872 LOS6.27.a

When fully anticipated, a shift to a more expansionary macroeconomic policy will:

- a. Fail to systematically reduce the unemployment rate in either the short-run or the long-run.
- b. Reduce the unemployment rate in the long-run, but not in the short-run.
- c. Reduce the unemployment rate in both the short-run and the long-run.

3.

L1-00867 LOS6.27.a

When fully anticipated, expansionary monetary policy will cause:

- a. An increase in employment only after a very long period of time.
- b. Money wages to adjust upward to higher expected inflation almost immediately.
- c. Money wages to adjust downward to lower expected inflation almost immediately.

4.

L1-00771 LOS6.27.a

If the central bank *unexpectedly* shifts to a more expansionary monetary policy, which of the following is *most likely* to occur in the short run?

- a. A decrease in the real interest rate.
- b. An increase in the unemployment rate.
- c. An increase in the inflow of foreign capital.

5.

L1-04368 LOS6.28.a

Central banks have direct control over:

- a. Short-term interest rates.
- b. Intermediate-term rates.
- c. Long-term interest rates.

6.

L1-04369 LOS6.28.b

Central banks must be clear about their commitment to price stability and policy intentions so that the market can:

- a. Anticipate central bank moves to maintain price trends.
- b. Adjust the term structure of interest rates to align with central bank actions.
- c. Profit from central bank intervention in the market.

7.

L1-04370 LOS6.28.d

Which of the following provides a measure of a central bank's predictability and transparency?

- a. Inflation increases at a predictable rate.
- b. Market rates oscillate around central bank policies.
- c. One-month forward interest rates correspond to central bank policy moves

8.

L1-04378 LOS6.27.c

When the United States Federal Reserve Bank (Fed) changes the federal funds rate, the yield to maturity on three-month Treasury bills typically changes in a similar fashion for which of the following reasons?

- a. Commercial banks can easily substitute Treasury bills for federal funds.
- b. Both rates are default risk-free so they are likely to move in tandem.
- c. Investors in short-term securities will bid up the price of Treasury bills when the federal funds rate rises.

9.

L1-04379 LOS6.27.b

When the United States Federal Reserve Bank (Fed) sells \$200 million worth of treasury securities in the open market to a commercial bank, the financial statements for both institutions are affected. Identify the change to the balance sheet for the Fed and the commercial bank.

Fed Balance Sheet

Commercial Bank Balance Sheet

- a. Liabilities decrease by \$200 million
- b. Assets increase by \$200 million
- c. Liabilities increase by \$200 million

- Liabilities remain unchanged
- Assets increase by \$200 million**
- Assets decrease by \$200 million

10.

L1-04380 LOS6.27.b

The United States Federal Reserve Bank (Fed) has determined that it will increase the federal funds rate at its next meeting. The reaction by the Fed member banks is *likely* to include an increase in the

- a. Quantity of reserves held.
- b. Quantity of overnight loans demanded.
- c. Supply of funds loanable to other financial institutions.