

MONEY AND THE BANKING SYSTEM

PRACTICE QUESTIONS

L1-03887 LOS6.24.c

Thrift institutions include:

- a. Commercial banks and savings banks.
- b. Savings and loan associations, savings banks, and credit unions.
- c. Commercial banks, federal reserve banks, and credit unions.

2.

L1-03888 LOS6.24.c

Which of the following is one of the economic functions of depository institutions?

- a. Minimizing the cost of monitoring borrowers by using their specialized resources.
- b. Facilitating the process of obtaining funds by eliminating search costs.
- c. Eliminating default risk by pooling loans.

3.

L1-00613 LOS6.24.e

A bank has \$500,000 in deposits, \$150,000 in legal reserves, and the Federal Reserve has set a 25% reserve requirement. The bank's excess reserves are:

- a. \$25,000
- b. \$37,500
- c. \$150,000

4.

L1-00616 LOS6.24.d

Assume that the Federal Reserve has decided to raise the federal funds rate by one quarter of a percentage point. Which of the following actions would the Fed take to achieve this objective?

- a. Reduce the discount rate.
- b. Sell government securities.
- c. Reduce reserve requirements at commercial bank.

5.

L1-00620 LOS6.24.d

To restrain inflation in the U.S., the Federal Reserve Open Market Committee is likely to:

- a. Sell bonds.
- b. Stabilize bond prices.
- c. Convert from longer-term maturity bonds to Treasury bills.

6.

L1-00625 LOS6.24.e

Assume the reserve requirement is 10 percent. First National Bank has cash (and deposits with the Federal Reserve) of \$25 million, loans and securities of \$175 million, and demand deposits of \$200 million. First National is in a position to make additional loans of:

- a. \$5.0 million.
- b. \$17.5 million.
- c. \$20.0 million.

7. L1-00631 LOS6.24.d

If the central bank attempts to "peg" the nominal interest rate at 5% by buying bonds, then every time the nominal rate exceeds 5%, the *likely* result will be:

- a. Low nominal interest rates and a reduction in the rate of inflation.
- b. Rapid expansion of bank reserves, rapid growth in the money supply, and inflation.
- c. A decline in the reserves of banks, a slow growth rate of the money supply, and deflation.

8. L1-00633 LOS6.24.d

The Federal Reserve action most commonly used to control the money supply in the short-term is:

- a. Changing the discount rate.
- b. Changing reserve requirements.
- c. Engaging in open market operations.

9. L1-00634 LOS6.24.d

Which one of the following monetary measures would best complement fiscal policies designed to stimulate aggregate demand during a period of high unemployment?

- a. An increase in reserve requirements.
- b. The sale of bonds by the central bank.
- c. A lowering of the central bank lending rate.

10. L1-00675 LOS6.24.d

An anti-inflationary monetary policy would involve:

- a. Purchasing Treasury securities in the open market, a lower discount rate, and a lower reserve requirement.
- b. Selling Treasury securities in the open market, a higher discount rate, and a higher reserve requirement.
- c. Selling Treasury securities in the open market, a higher discount rate, and a lower reserve requirement.

11. L1-00679 LOS6.24.d

If the central bank unexpectedly decides to lower the reserve requirements imposed on the banking industry, the *most likely* short-run effect is:

- a. An increase in the demand for loanable funds.
- b. An increase in the supply of loanable funds.
- c. A decrease in the normal rate of unemployment.

12. L1-00777 LOS6.24.g

Which of the following statements about the demand for money is correct?

- a. The demand for money will decrease as GDP expands.
- b. Interest rates will ease as the economy contracts.
- c. Demand for money will always be in equilibrium with supply.

13. L1-00751 LOS6.24.g

Household and business demand for money is likely to increase if:

- a. Incomes rise, but is likely to fall if interest rates rise.
- b. Incomes rise, but is likely to be unaffected by changes in interest rates.
- c. Interest rates rise, but is likely to be unaffected by changes in incomes.

14.

L1-00670 LOS6.24.h

If the economy expands, prices remain constant, and this expansion is not accommodated by a commensurate increase in the money supply:

- a. Interest rates are likely to rise because the demand for money will increase relative to supply.
- b. Interest rates are likely to remain unchanged because the money supply has not changed.
- c. Real GDP cannot expand without an increase in the money supply.

15.

L1-00676 LOS6.24.g

The variable that adjusts to reach equilibrium between the demand for and supply of loanable funds is the:

- a. Money supply.
- b. Level of inflation.
- c. Real interest rate.

16.

L1-00677 LOS6.24.i

Which one of the following factors would cause an increase in the demand for money balances?

- a. A lower price level.
- b. A higher price level.
- c. Higher interest rates.

17.

L1-00756 LOS6.24.h

If the Federal Reserve unexpectedly shifts to a more expansionary monetary policy, the *likely* result will be an increase in:

- a. The velocity of money.
- b. The real interest rate.
- c. Employment.

18.

L1-00778 LOS6.24.c

If the velocity of money is 3.2 and the money supply \$4.2 trillion, the Nominal GDP is *closest* to:

- a. \$1.3 trillion.
- b. \$7.4 trillion.
- c. \$13.44 trillion.

19.

L1-00605 LOS6.24.i

Assume the following hypothetical data applicable to the U.S. economy:

Nominal GDP	\$5.4 trillion
Real GDP	\$4.5 trillion
Money supply	\$0.9 trillion
Reserve requirement	25%

Based on these data, the velocity of money is:

- a. 6.0 and the potential deposit expansion multiplier is 4.0.
- b. 5.0 and the potential deposit expansion multiplier is 4.0.
- c. 4.0 and the potential deposit expansion multiplier is 6.0.

20. L1-00673 LOS6.24.i

If the current economic data indicates a money velocity of 2.25, a real GDP of \$16.8 billion, and a general price level of 1.0375, what is the current money supply?

- a. \$7.75 billion.
- b. \$7.47 billion.
- c. \$7.20 billion.

21. L1-00674 LOS6.24.i

According to the quantity theory of money, assuming stable prices, the *likely* effect of an increase in the size of the money supply is that:

- a. In the short run, the velocity of money will decrease.
- b. In the long run, worker productivity will increase.
- c. In the short run, nominal GDP will decline.

22. L1-00760 LOS6.24.i

According to the quantity theory of money, if nominal gross domestic product is \$6 trillion and money supply is \$800 billion, then the velocity of the money supply is:

- a. 0.153
- b. 6.500
- c. 7.500

23. L1-00466 LOS6.25.a

The CPI jumps from 131 to 136.5 in three years. What is the average annual rate of inflation?

- a. 13.80%
- b. 4.20%
- c. 1.38%

24. L1-00381 LOS6.25.c

Which of the following outcomes *best* describes the relationship between debtors and creditors when inflation is fully anticipated?

- a. Debtors will overextend themselves and find that their losses will offset gains achieved by creditors.
- b. Creditors' losses are offset through tax credits.
- c. Interest rates will rise to reflect the expected annual decline in purchasing power.

25. L1-00383 LOS6.25.e

Initially, the nominal interest rate is 8 percent and the expected rate of inflation is 6 percent. One year later, the nominal interest rate rises to 12 percent while the expected inflation rate rises to 10 percent. It follows that the real rate of interest has:

- a. Remained the same.
- b. Fallen.
- c. Risen.