Chapter 22 Testbank

1. The two main responsibilities of the central bank System are to _____ and to ______.

   A. apprehend counterfeiters; regulate the stock market

   B. enable banks to make affordable mortgages; control the exchange rate of the U.S. dollar

   C. insure bank deposits; print currency

   D. conduct monetary policy; oversee financial markets

2. The central bank makes decisions about ____ policy.

   A. monetary

   B. fiscal

   C. banking

   D. deposit insurance

3. The most important, most convenient, and most flexible way in which the central bank affects the supply of bank reserves is through:

   A. conducting open-market operations.

   B. changing the central bank discount rate.

   C. changing bank reserve requirement ratios.

   D. changing interest rates.

4. A banking panic is an episode in which:

A. depositors, spurred by news or rumors of possible bankruptcy of one bank, rush to withdraw deposits from the banking system.
B. commercial banks, fearing central bank sanctions, unwillingly participate in open-market operations.
C. commercial banks, concerned about high interest rates, rush to borrow at the central bank discount rate.
D. depositors, afraid of increasing interest rates, attempt to engage in discount-window borrowing at the central bank.

5. Bank depositors will not lose their deposits in a banking panic if:

A. there is fractional reserve banking.
B. there is 100% reserve banking.
C. there is a central bank.
D. the actual reserve/deposit ratio equal to the desired reserve/deposit ratio.

6. Deposit insurance is a system in which the government guarantees that:

A. depositors will not lose any money even if their bank goes bankrupt.
B. people can have deposits at commercial banks.
C. commercial banks will not go bankrupt.
D. commercial banks will not lose any deposits.

7. One of the serious drawbacks of the deposit insurance system is that:

A. bank failures continue to occur regularly.

B. the system takes away the central bank's ability to conduct open-market operations.

C. the system takes away the central bank's ability to change reserve requirements.

D. if insured intermediaries make bad loans, the taxpayers may be responsible for covering the losses.

8. The interbank rate is the interest rate on short-term loans made by:

A. the central bank to commercial banks.

B. the government to the central bank.

C. the central bank to the government.

D. commercial banks to other commercial banks.

9. The interest rate that commercial banks charge each other for very short-term loans is called the:

A. prime rate.

B. interbank rate.

C. central bank discount rate.

D. commercial paper rate.

10. Financial markets pay close attention to changes in the interbank rate because these changes:

A. directly affect a large volume of loans.

B. indicate the central bank's plans for monetary policy.

C. indicate commercial bank lending policies.

D. directly affect the interest payments on the national debt.

11. A higher real interest rate ______ saving and _____ consumption spending.

A. increases; increases

B. increases; decreases

C. does not change; does not change

D. decreases; increases

12. A lower real interest rate ______ saving and _____ consumption spending.

A. increases; increases

B. increases; decreases

C. does not change; does not change

D. decreases; increases

13. A higher real interest rate ______ investment spending and _____ consumption spending.

A. increases; increases

B. increases; decreases

C. decreases; decreases

D. decreases; increases

14. Changes in consumption and planned investment spending resulting from changes in the real interest rate alter:

A. the money supply.

B. money demand.

C. autonomous expenditures.

D. induced expenditures.

15. If planned aggregate spending in an economy can be written as PAE = 15,000 + 0.6Y - 20,000r, and potential output equals 36,000, what real interest rate must the central bank set to bring the economy to full employment?

A. 0.02

B. 0.03

C. 0.04

D. 0.05

16. If planned aggregate spending in an economy can be written as PAE = 15,000 + 0.6Y - 20,000r, and potential output equals 35,000, what real interest rate must the central bank set to bring the economy to full employment?

A. 0.02

B. 0.03

C. 0.04

D. 0.05

17. In the short-run, if the central bank increases interest rates, then consumption and investment ______, planned aggregate expenditure ______, and short-run equilibrium output _______.

A. increase; increases; increases

B. increase; increases decreases

C. increase; decreases; decreases

D. decrease; decreases; decreases

18. If potential output equals 4,000 and short-run equilibrium output equals 3,500, there is a ______ gap and the central bank must _____ real interest rates in order to close the gap.

A. recessionary; raise

B. recessionary lower

C. recessionary; not change

D. expansionary; raise

19. To close a recessionary gap, the central bank must ____ real interest rates by ______ the money supply.

A. increase; increasing

B. increase; decreasing

C. decrease; decreasing

D. decrease; increasing

20. To close a recessionary gap, the central bank ____ interest rates which ______ planned aggregate spending and _____ short-run equilibrium output.

A. lowers; increases; increases

B. raises; decreases; increases

C. raises; decreases; decreases

D. lowers; increases; decreases

21. In an economy where planned aggregate spending is given by PAE = 5,500 + .6Y - 20,000 r, the central bank is currently setting the interest rate at 0.05 (5 percent). If potential output equals 11,750, the central bank must ____ the interest rate to close the ___________ gap.

A. lower; expansionary

B. lower; recessionary

C. raise; recessionary

D. raise; expansionary

22. In an economy where planned aggregate spending is given by PAE = 5,500 + .6Y - 20,000 r, the central bank is currently setting the interest rate at 0.06 (6 percent). If potential output equals 11,250, the central bank must ____ the interest rate to close the _________ gap.

A. lower; expansionary

B. lower; recessionary

C. raise; recessionary

D. raise; expansionary

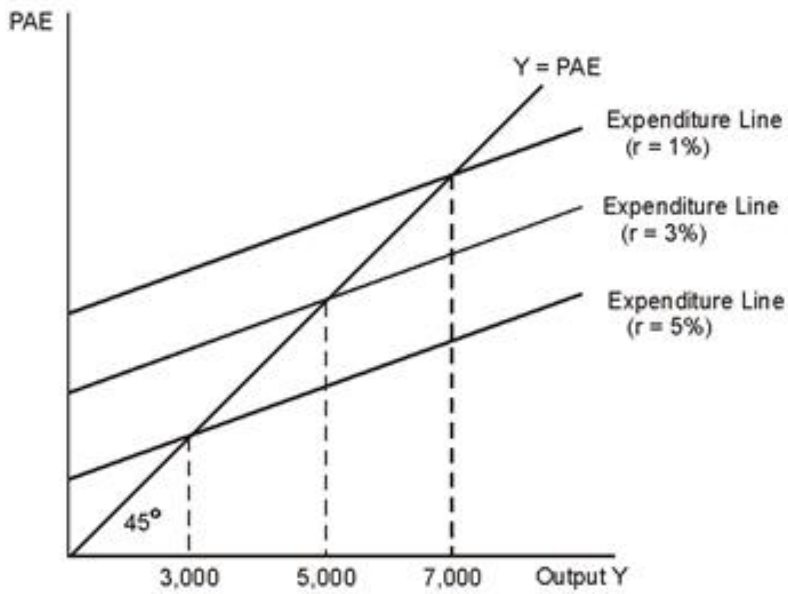
23. If the income-expenditure multiplier equals 4 and a 1 percentage point increase in the real interest rate reduces autonomous spending by 100 units, then a 1,000 unit recessionary gap can be eliminated by _____ the real interest rate by _____ percentage points.

A. increasing; 10

B. increasing; 4

C. increasing ; 2.5

D. decreasing; 2.5



24. Refer to the figure above. Based on the diagram, if potential output equals 5,000 and the real interest rate is 5%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. a recessionary; lower

C. no output; not change

D. an expansionary; raise

25. Refer to the figure above. Based on the diagram, if potential output equals 5,000 and the real interest rate is 1%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. a recessionary; lower

C. an expansionary; lower

D. an expansionary; raise

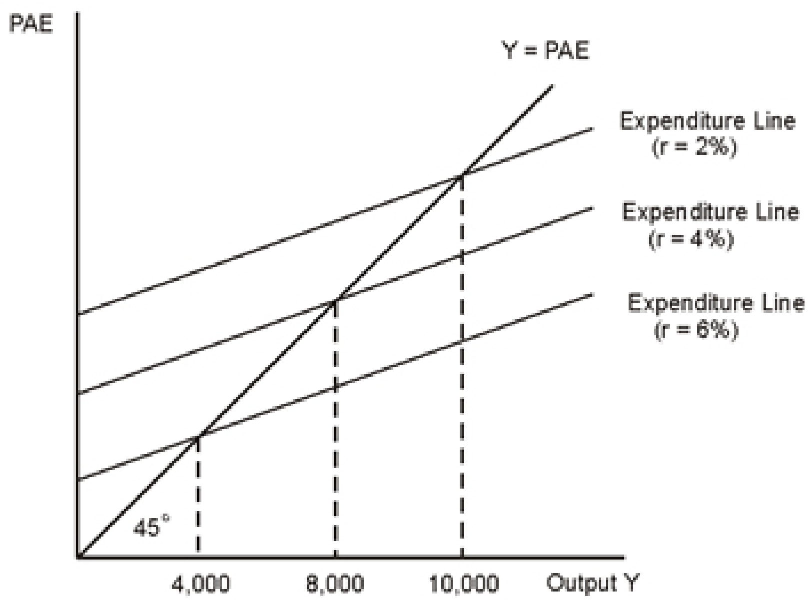
26. Refer to the figure above. Based on the diagram, if potential output equals 5,000 and the real interest rate is 3%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. a recessionary; lower

C. no output; not change

D. an expansionary; raise



27. Refer to the figure above. Based on the diagram, if potential output equals 8,000 and the real interest rate is 6%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. a recessionary; lower

C. no output; not change

D. an expansionary; raise

28. Refer to the figure above. Based on the diagram, if potential output equals 8,000 and the real interest rate is 2%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. an expansionary; lower

C. no output; not change

D. an expansionary; raise

29. Refer to the figure above. Based on the diagram, if potential output equals 8,000 and the real interest rate is 4%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. a recessionary; lower

C. no output; not change

D. an expansionary; raise

30. If potential output equals 3,000 and short-run equilibrium output equals 3,500, there is a(n) ______ gap and the central bank must _____ real interest rates in order to close the gap.

A. recessionary; raise

B. recessionary; lower

C. recessionary; not change

D. expansionary; raise

31. If potential output equals 8,000 and short-run equilibrium output equals 8,500, there is a(n) ______ gap and the central bank must _____ real interest rates in order to close the gap.

A. recessionary; raise

B. recessionary lower

C. recessionary; not change

D. expansionary; raise

32. To close an expansionary gap, the central bank ____ interest rates which ______ planned aggregate spending and _____ short-run equilibrium output.

A. raises; increases; increases

B. raises; decreases; increases

C. raises; decreases; decreases

D. lowers; increases; decreases

33. Central bank actions that increase nominal interest rates and decrease the money supply

A. close a recessionary gap.

B. close an expansionary gap.

C. raise the monetary policy rule.

D. raise bond prices.

34. If the income-expenditure multiplier equals 4 and a 1 percentage point increase in the real interest rate reduces autonomous spending by 100 units, then a 1,000 unit expansionary gap can be eliminated by _____ the real interest rate by _____ percentage points.

A. increasing; 10

B. increasing; 4

C. increasing ; 2.5

D. decreasing; 2.5

35. The central bank's monetary policy rule provides information about:

A. economywide money demand and the output gap.

B. economywide money demand and the long-run target for inflation.

C. the long-run target for inflation and how aggressively targets will be pursued.

D. the short-run target for inflation and how aggressively target will be pursued.

36. The monetary policy rule described in the text summarizes the relationship between changes in

A. unemployment and the output gap.

B. unemployment and inflation.

C. inflation and the real interest rate.

D. the real interest rate and the output gap.

37. The monetary policy rule described in the text is graphed as ______.

A. a downward-sloping line.

B. an upward-sloping line.

C. the intersection of supply and demand.

D. two parallel lines.

38. According to the monetary policy rule, if actual inflation exceeds the target rate of inflation,

A. the central bank will lower interest rates.

B. the central bank will raise interest rates.

C. the central bank will increase the money supply.

D. the central bank will set the interest rate equal to the rate of inflation.

39. If the central bank is following a steep monetary policy rule, it will

A. aggressively increase inflation if the interest rate exceeds the target interest rate.

B. aggressively increase interest rates if the inflation rate exceeds the target inflation rate.

C. only slightly increase inflation if the interest rate exceeds the target interest rate.

D. only slightly increase interest rates if the inflation rate exceeds the target inflation rate.

40. If the central bank is following a flat monetary policy rule, it will

A. aggressively increase inflation if the interest rate exceeds the target interest rate.

B. aggressively increase interest rates if the inflation rate exceeds the target inflation rate.

C. only slightly increase inflation if the interest rate exceeds the target interest rate.

D. only slightly increase interest rates if the inflation rate exceeds the target inflation rate.

41. The opportunity cost of money is:

A. the time spent going to the bank to withdraw funds.

B. the fees charged by banks to provide checking services.

C. the nominal interest rate.

D. the price level.

42. The decision about the forms in which to hold one's wealth is called the ________ decision.

A. Taylor

B. portfolio allocation

C. Fisher effect

D. life-cycle

43. The portfolio allocation decision is the decision about:

A. how to spread one's consumption over the life-cycle.

B. how much more to consume when disposable income increases by one dollar.

C. the forms in which to hold one's wealth.

D. how to allocate income between saving and consumption.

44. The demand for money is:

A. unlimited, since people want to hold as much money as possible.

B. limited by the amount of currency printed by the government.

C. the amount of wealth an individual chooses to hold in the form of money.

D. the amount of income an individual chooses to hold in the form of money.

45. The amount of wealth an individual chooses to hold in the form of money is called:

A. the money reaction function.

B. the demand for money.

C. the supply of money.

D. the private reserve requirement.

46. How much money to hold is an application of the:

A. scarcity principle.

B. principle of comparative advantage.

C. equilibrium principle.

D. cost-benefit principle.

47. The benefit of holding money is _______, while the opportunity cost of holding money is _______.

A. the nominal interest rate; the fees charged by banks

B. the nominal interest rate; its usefulness in carrying out transactions

C. increased income; lost purchasing power

D. its usefulness in carrying out transactions; the nominal interest rate

48. The usefulness of money in carry out transactions is its _____ and the nominal interest rate is its ____.

A. supply; demand

B. demand; supply

C. cost; benefit

D. benefit; cost

49. Innovations, such as credit cards, debit cards, and ATMs have:

A. increased the demand for money.

B. decreased the demand for money.

C. had no impact on the supply or demand for money.

D. increased the supply of money.

50. The following table shows Adam's estimated annual benefits of holding different amounts of money.

Average money holdings ($)	Total benefit ($)
700	50
800	59
900	66
1000	71
1100	74

How much money will Adam hold if the nominal interest rate is 8 percent? (Assume she wants her money holdings to be in multiples of $100.)

A. 700

B. 800

C. 900

D. 1000

51. The following table shows Adam's estimated annual benefits of holding different amounts of money.

Average money holdings ($)	Total benefit ($)
700	50
800	59
900	66
1000	71
1100	74

How much money will Adam hold if the nominal interest rate is 6 percent? (Assume she wants her money holdings to be in multiples of $100.)

A. 700

B. 800

C. 900

D. 1000

52. The following table shows Adam's estimated annual benefits of holding different amounts of money.

Average money holdings ($)	Total benefit ($)
700	50
800	59
900	66
1000	71
1100	74

How much money will Adam hold if the nominal interest rate is 4 percent? (Assume she wants her money holdings to be in multiples of $100.)

A. 700

B. 800

C. 900

D. 1000

53. Three macroeconomic factors that affect the demand for money are:

A. the nominal interest rate; real income, and the price level.

B. the nominal interest rate; capital, and labor.

C. globalization, skill-biased technological change, and labor mobility.

D. capital, labor, and technology.

54. Higher nominal interest rates ____ the demand for money and higher real income ___ the demand for money.

A. increase; increases

B. increase; decreases

C. decrease; increases

D. decrease; decreases

55. Lower nominal interest rates ____ the demand for money and lower real income ___ the demand for money.

A. increase; increases

B. increase; decreases

C. increase; does not change

D. decrease; decreases

56. Higher nominal interest rates ____ the demand for money and a higher price level ___ the demand for money.

A. increase; increases

B. increase; decreases

C. decrease; increases

D. decrease; decreases

57. Lower nominal interest rates ____ the demand for money and a lower price level ___ the demand for money.

A. increase; increases

B. increase; decreases

C. increase; does not change

D. decrease; decreases

58. Lower real income ____ the demand for money and a lower price level ___ the demand for money.

A. increases; increases

B. increases; decreases

C. increases; does not change

D. decreases; decreases

59. Higher real income ____ the demand for money and a higher price level ___ the demand for money.

A. increases; increases

B. increases; decreases

C. decreases; increases

D. decreases; decreases

60. Which of the following would be expected to increase the demand for money?

A. Financial investors become concerned about increasing riskiness of stocks.

B. The economy enters a recession.

C. Political instability decreases dramatically in other less developed nations.

D. On-line banking allows customers to transfer funds between checking and stock mutual funds 24 hours a day.

61. Which of the following would be expected to increase the demand for money?

A. Competition among brokers forces down the commission charge for selling bonds or stocks.

B. The economy enters a recession.

C. Political instability increases dramatically in other less developed nations.

D. On-line banking allows customers to transfer funds between checking and stock mutual funds 24 hours a day.

62. Which of the following would be expected to decrease the demand for money?

A. Competition among brokers forces down the commission charge for selling bonds or stocks.

B. The economy enters a boom period.

C. Political instability increases dramatically in other less developed nations.

D. Households fear increasing computer glitches will severely limit their ability to use ATMs.

63. Which of the following would be expected to decrease the demand for money?

A. Grocery stores begin to accept credit cards in payment.

B. The economy enters a boom period.

C. Political instability increases dramatically in other less developed nations.

D. Households fear increasing computer glitches will severely limit their ability to use ATMs.

64. The money demand curve relates ________ to the ________.

A. the aggregate quantity of money demanded; aggregate demand

B. aggregate demand; nominal interest rate

C. the aggregate quantity of money demanded; price level

D. the aggregate quantity of money demanded; nominal interest rate

65. The money demand curve will shift to the right if:

A. the nominal interest rate increases.

B. the nominal interest rate decreases.

C. the price level increases.

D. the price level decreases.

66. The money demand curve will shift to the right if:

A. the nominal interest rate increases.

B. real income increases.

C. ATM machines are introduced.

D. the price level decreases.

67. The money demand curve will shift to the left if:

A. the nominal interest rate increases.

B. the nominal interest rate decreases.

C. ATM machines are introduced.

D. the price level increases.

68. The money demand curve will shift to the left if:

A. the nominal interest rate increases.

B. the nominal interest rate decreases.

C. price level increases.

D. the price level decreases.

69. The money demand curve will shift to the left if:

A. the nominal interest rate increases.

B. the nominal interest rate decreases.

C. price level increases.

D. real income decreases.

70. When Egyptians increase their savings in UAE dirhams, the UAE money:

A. supply curve shifts left.

B. supply curve shifts right.

C. demand curve shifts right.

D. demand curve shifts left.

71. Because an increase in the nominal interest rate raises the opportunity costs of holding money, the money demand curve:

A. shifts to the right.

B. shifts to the left.

C. slopes upward.

D. slopes downward.

72. Because the central bank determines the money supply, the:

A. money supply curve is downward sloping.

B. money supply curve is upward sloping.

C. money supply curve is vertical.

D. money supply curve is horizontal.

73. The equilibrium quantity of money in circulation is determined by:

A. the interaction of money supply and money demand.

B. the nominal interest rate, real income, and the price level.

C. the central bank.

D. individuals, households, and businesses.

74. If the nominal interest rate is below the equilibrium value, then money demand is ______ than money supply, bond prices will ____, and the nominal interest rate will ____.

A. greater; fall; increase

B. greater; fall; decrease

C. greater; rise; increase

D. less; fall; increase

75. If the nominal interest rate is above the equilibrium value, then money demand is ______ than money supply, bond prices will ____, and the nominal interest rate will ____.

A. greater; fall; increase

B. less; rise; decrease

C. greater; rise; increase

D. less; fall; increase

76. If the money supply exceeds money demand, people will ____ bonds which will cause bond prices to ____ and the nominal interest rate to _____ until money demand equals money supply.

A. buy; rise; fall

B. sell; fall; fall

C. sell; rise; fall

D. buy; fall; rise

77. If the money supply is less than money demand, people will ____ bonds which will cause bond prices to ____ and the nominal interest rate to _____ until money demand equals money supply.

A. sell; fall; rise

B. sell; fall; fall

C. sell; rise; fall

D. buy; fall; rise

78. During the holiday shopping season the demand for money increases significantly. If the central bank takes no actions to offset the increase in money demand, then nominal interest rates will ____.

A. increase.

B. decrease.

C. remain constant.

D. equal the real interest rates.

79. Prior to January 2000, the demand for money increased as people anticipated Y2K problems. If the central bank took no actions to offset this increase in money demand, then nominal interest rates would _____.

A. increase.

B. decrease.

C. remain constant.

D. equal the real interest rates.

80. If the central bank wishes to reduce nominal interest rates, it must engage in an open market ____ of bonds that ____ the money supply.

A. sale; increases

B. sale; decreases

C. purchase; decreases

D. purchase; increases

81. If the central bank wishes to increase nominal interest rates, it must engage in an open market ____ of bonds that ____ the money supply.

A. sale; increases

B. sale; decreases

C. sale; does not change

D. purchase; increases

82. When the central bank engages in an open market purchase, the money supply ____ and the nominal interest rate ______.

A. increases; increases

B. increases; decreases

C. decreases; decreases

D. decreases; increases

83. When the central bank engages in an open market sale, the money supply ____ and the nominal interest rate ______.

A. increases; increases

B. increases; decreases

C. decreases; decreases

D. decreases; increases

84. During the holiday shopping season the demand for money increases significantly. To offset the increase in money demand, the central bank must _____ the money supply in order to _____ nominal interest rates.

A. increase; decrease

B. increase; increase

C. decrease; decrease

D. decrease; increase

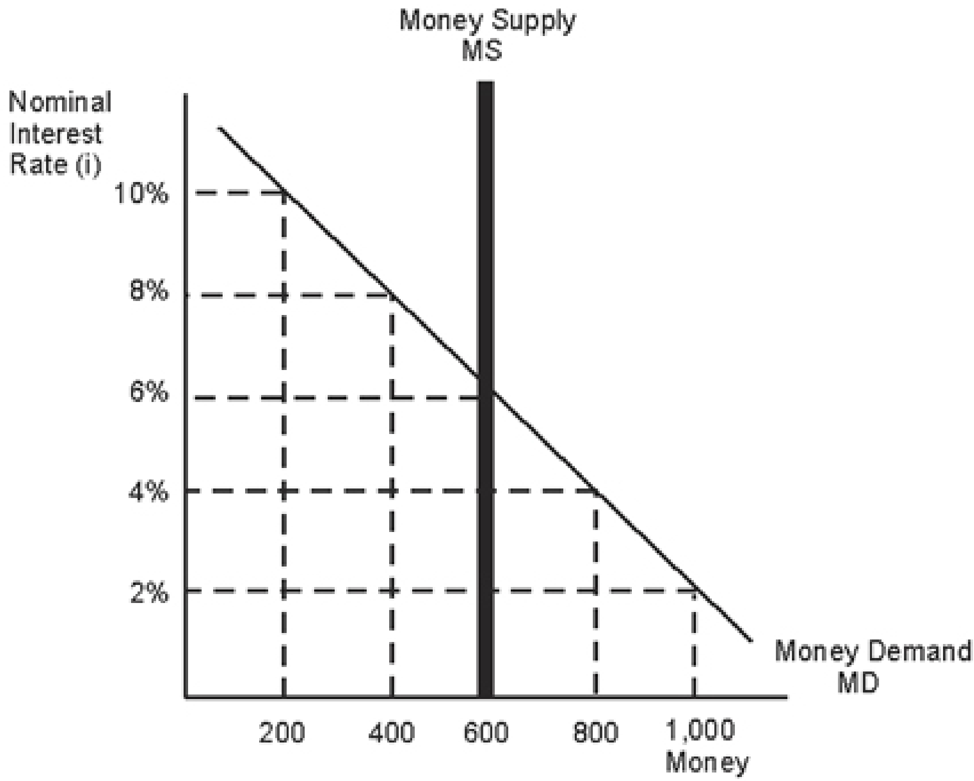
85. Prior to January 2000, the demand for money increased as people anticipated Y2K problems. To offset this increase in money demand, the central bank would have to _____ the money supply in order to ____ nominal interest rates.

A. increase; decrease

B. increase; increase

C. decrease; decrease

D. decrease; increase



86. Refer to the figure above. Based on the diagram the nominal interest rate equals 6% and the money supply equals 600. If the central bank wants to lower the interest rate to 4%, it must _____ the money supply to _____.

A. increase; 800

B. decrease; 800

C. increase; 1,000

D. increase; 400

87. Refer to the figure above. Based on the diagram the nominal interest rate equals 6% and the money supply equals 600. If the central bank wants to raise the interest rate to 8%, it must _____ the money supply to _____.

A. increase; 800

B. decrease; 800

C. decrease; 400

D. increase; 400

88. Refer to the figure above. Based on the diagram the nominal interest rate equals 6% and the money supply equals 600. If the central bank wants to set the nominal interest rate at 10%, it must conduct open market _____ to set the money supply at _____.

A. purchases; 200

B. sales; 200

C. purchases; 800

D. sales; 800

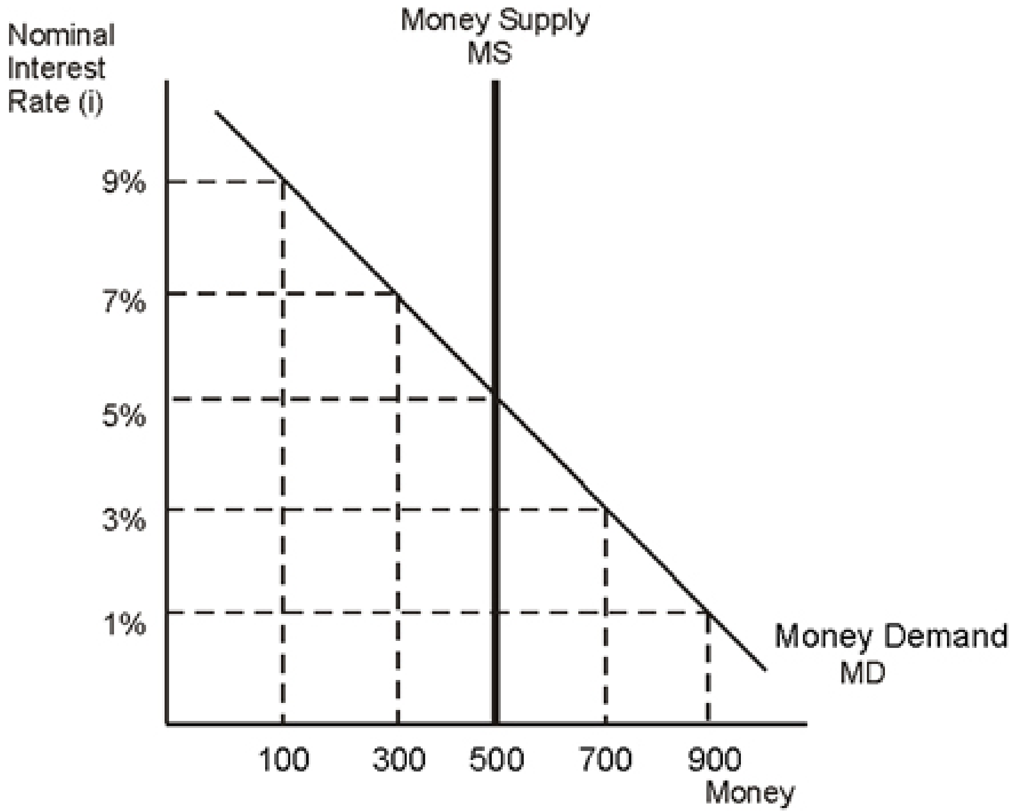
89. Refer to the figure above. Based on the diagram the nominal interest rate equals 6% and the money supply equals 600. If the central bank wants to set the nominal interest rate at 4%, it must conduct open market _____ to set the money supply at _____.

A. purchases; 200

B. sales; 200

C. purchases; 800

D. sales; 800



90. Refer to the figure above. Based on the diagram the nominal interest rate equals ____ and the money supply equals ____.

A. 7%; 300

B. 1%; 500

C. 5%; 500

D. 3%; 700

91. Refer to the figure above. If the central bank wants to lower the interest rate to 3%, it must _____ the money supply to _____.

A. increase; 300

B. decrease; 300

C. increase; 900

D. increase; 700

92. Refer to the figure above. If the central bank wants to raise the interest rate to 7%, it must _____ the money supply to _____.

A. increase; 300

B. decrease; 300

C. increase; 900

D. increase; 700

93. Refer to the figure above. If the central bank wants to set the nominal interest rate at 9%, it must conduct open market _____ to set the money supply at _____.

A. purchases; 100

B. sales; 100

C. purchases; 900

D. sales; 900

94. Refer to the figure above. If the central bank wants to set the nominal interest rate at 1%, it must conduct open market _____ to set the money supply at _____.

A. purchases; 300

B. sales; 100

C. purchases; 900

D. sales; 900

95. The central bank can:

A. simultaneously set any money supply and any nominal interest rate target.

B. set the target money supply and target nominal interest rate independently.

C. only set a money supply target that is consistent with the target nominal interest rate.

D. only target the money supply, not the nominal interest rate.

96. If the central bank sets a target nominal interest rate, it can:

A. independently set a target money supply.

B. only set a money supply target that is consistent with the target nominal interest rate target.

C. simultaneously set any money supply target.

D. shift the money demand curve to the right.

97. When the central bank lends reserves to commercial banks, this is an example of:

A. a change in reserve requirements.

B. an open-market sale.

C. an open-market purchase.

D. discount window lending.

98. When making discount window loans, the central bank lends bank reserves to:

A. the government.

B. the nonbank public.

C. commercial banks.

D. foreign governments.

99. The central bank discount rate is the rate of interest charged on loans from _____ to _____.

A. the central bank; commercial banks

B. the central bank; the government

C. commercial banks; the central bank

D. the government; commercial banks

100. The interest rate the central bank charges commercial banks to borrow reserves is called the _____ rate.

A. central bank funds

B. prime

C. discount

D. Federal

101. When commercial banks borrow reserves from the central bank, the quantity of reserves in the banking system _____ and ultimately the money supply _____.

A. increases; increases

B. increases; decreases

C. decreases; increases

D. decreases; decreases

102. When the central bank lends bank reserves by discount window lending, the quantity of reserves in the banking system _____ and ultimately the money supply _____.

A. increases; increases

B. increases; decreases

C. increases; does not change

D. decreases; decreases

103. When banks borrow funds via the central bank's discount window:

A. interest rates rise.

B. the reserve/deposit ratio falls.

C. bank reserves are increased and ultimately bank deposits and the money supply increase.

D. bank reserves are decreased and ultimately bank deposits and the money supply decrease.

104. In Macroland, currency held by the public is 2,000 econs, bank reserves are 300 econs, and the desired reserve/deposit ratio is 15 percent. If commercial banks borrow 100 econs in reserves from the Central Bank through discount window lending, then the money supply in Macroland will _____ to _____ econs, assuming that the public does not wish to change the amount of currency it holds.

A. increase; 3,133

B. increase; 4,100

C. increase; 4,667

D. increase; 2,667

105.In Macroland, currency held by the public is 2,000 econs, bank reserves are 300 econs, and the desired reserve/deposit ratio is 15 percent. If commercial banks repay 100 econs in reserves from the Central Bank through discount window lending, then the money supply in Macroland will _____ to _____ econs, assuming that the public does not wish to change the amount of currency it holds.

A. increase; 3,133

B. decrease; 1,133

C. decrease; 4,667

D. decrease; 3,133

106.Reserve requirements set by the central bank are the:

A. minimum value of reserves to deposits that commercial banks are allowed to maintain.

B. maximum value of reserves to deposits that commercial banks are allowed to maintain.

C. minimum amount of currency banks must hold in their vaults.

D. maximum amount of currency banks are allowed to hold in their vaults.

107.The minimum values of the ratio of bank reserves to bank deposits that the central bank allows commercial banks to hold are called:

A. open-market purchases.

B. open-market sales.

C. the discount rate.

D. reserve requirements.

108.If commercial banks are maintaining a 4 percent reserve/deposit ratio and the central bank raises the required reserve ratio to 6 percent, then banks will _____ the deposits they accept and the money supply will _____.

A. increase; increase

B. increase; decrease

C. decrease; increase

D. decrease; decrease

109.If commercial banks are maintaining a 5 percent reserve/deposit ratio and the central bank lowers the required reserve ratio so that the new desired reserve/deposit ratio is 3 percent, then banks will _____ the deposits they accept and the money supply will _____.

A. increase; increase

B. increase; decrease

C. decrease; increase

D. decrease; decrease

110.The central bank can increase the money supply by:

A. reducing reserve requirements.

B. increasing the discount rate.

C. eliminating deposit insurance.

D. conducting open market sales.

111.The central bank can decrease the money supply by:

A. increasing reserve requirements.

B. decreasing the discount rate.

C. introducing deposit insurance.

D. conducting open market purchases.

112.If the central bank wants to increase the money supply, it should:

A. increase reserve requirements.

B. increase the discount rate.

C. conduct open-market purchases.

D. conduct open-market sales.

113.If the central bank wants to decrease the money supply, it should:

A. decrease reserve requirements.

B. decrease the discount rate.

C. conduct open-market purchases.

D. conduct open-market sales.

114.If inflation does not adjust rapidly in the short run, then when the central bank increases the nominal interest rate, the real interest rate in the short run will ____.

A. increase

B. decrease

C. not change

D. equal the nominal interest rate

115. If inflation does not adjust rapidly in the short run, then when the central bank decreases the nominal interest rate, the real interest rate in the short run will ____.

A. increase

B. decrease

C. not change

D. equal the nominal interest rate

116. In the long run the real interest rate is determined by ______, and in the short-run the central bank can control the real interest rate by setting the nominal interest rate if inflation adjusts _____.

A. saving and investment; slowly

B. saving and investment; quickly

C. the central bank; quickly

D. the central bank; slowly

117. The _____ is the interest rate commercial banks pay to the central bank; the _____ is the interest rate commercial banks charge each other for short-term loans.

A. interbank rate; discount rate

B. discount rate; interbank rate

C. nominal interest rate; real interest rate

D. nominal interest rate; prime rate of interest

118.Any value of the money supply chosen by the central bank implies a specific value for ______.

A. potential output

B. the nominal interest rate

C. government purchases

D. the budget deficit

119.Any value of the nominal interest rate chosen by the central bank implies a specific value for ______.

A. potential output

B. the money supply

C. government purchases

D. the budget deficit

Chapter 22 Testbank Key

1. The two main responsibilities of the central bank System are to _____ and to ______.

A. apprehend counterfeiters; regulate the stock market

B. enable banks to make affordable mortgages; control the exchange rate of the U.S. dollar

C. insure bank deposits; print currency

D. conduct monetary policy; oversee financial markets

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #1

Learning Objective: 22-01 Describe the structure and responsibilities of the central bank.

Section: The Central bank

2. The central bank makes decisions about ____ policy.

A. monetary

B. fiscal

C. banking

D. deposit insurance

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #2

Learning Objective: 22-01 Describe the structure and responsibilities of the central bank.

Section: The Central bank

3. The most important, most convenient, and most flexible way in which the central bank affects the supply of bank reserves is through:

A. conducting open-market operations.
B. changing the central bank discount rate.
C. changing bank reserve requirement ratios.
D. changing interest rates.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #3
Learning Objective: 22-01 Describe the structure and responsibilities of the central bank.
Section: The Central bank

4. A banking panic is an episode in which:

A. depositors, spurred by news or rumors of possible bankruptcy of one bank, rush to withdraw deposits from the banking system.
B. commercial banks, fearing central bank sanctions, unwillingly participate in open-market operations.
C. commercial banks, concerned about high interest rates, rush to borrow at the central bank discount rate.
D. depositors, afraid of increasing interest rates, attempt to engage in discount-window borrowing at the central bank.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #4
Learning Objective: 22-01 Describe the structure and responsibilities of the central bank.
Section: The Central bank

5. Bank depositors will not lose their deposits in a banking panic if:

A. there is fractional reserve banking.

B. there is 100% reserve banking.

C. there is a central bank.

D. the actual reserve/deposit ratio equal to the desired reserve/deposit ratio.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #5
Learning Objective: 22-01 Describe the structure and responsibilities of the central bank.
Section: The Central bank

6. Deposit insurance is a system in which the government guarantees that:

A. depositors will not lose any money even if their bank goes bankrupt.

B. people can have deposits at commercial banks.

C. commercial banks will not go bankrupt.

D. commercial banks will not lose any deposits.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #6
Learning Objective: 22-01 Describe the structure and responsibilities of the central bank.
Section: The Central bank

7. One of the serious drawbacks of the deposit insurance system is that:

A. bank failures continue to occur regularly.

B. the system takes away the central bank's ability to conduct open-market operations.

C. the system takes away the central bank's ability to change reserve requirements.

D. if insured intermediaries make bad loans, the taxpayers may be responsible for covering the losses.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #7
Learning Objective: 22-01 Describe the structure and responsibilities of the central bank.
Section: The Central bank

8. The interbank rate is the interest rate on short-term loans made by:

A. the central bank to commercial banks.

B. the government to the central bank.

C. the central bank to the government.

D. commercial banks to other commercial banks.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #8
Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.
Section: The Effects of Central Bank Actions on the Economy

9. The interest rate that commercial banks charge each other for very short-term loans is called the:

A. prime rate.

B. interbank rate.

C. central bank discount rate.

D. commercial paper rate.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #9
Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.
Section: The Effects of Central Bank Actions on the Economy

10. Financial markets pay close attention to changes in the interbank rate because these changes:

A. directly affect a large volume of loans.

B. indicate the central bank's plans for monetary policy.

C. indicate commercial bank lending policies.

D. directly affect the interest payments on the national debt.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #10
Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.
Section: The Effects of Central Bank Actions on the Economy

11. A higher real interest rate ______ saving and _____ consumption spending.

A. increases; increases

B. increases; decreases

C. does not change; does not change

D. decreases; increases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #11

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

12. A lower real interest rate ______ saving and _____ consumption spending.

A. increases; increases

B. increases; decreases

C. does not change; does not change

D. decreases; increases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #12

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

13. A higher real interest rate ______ investment spending and _____ consumption spending.

A. increases; increases

B. increases; decreases

C. decreases; decreases

D. decreases; increases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #13

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

14. Changes in consumption and planned investment spending resulting from changes in the real interest rate alter:

A. the money supply.

B. money demand.

C. autonomous expenditures.

D. induced expenditures.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #14

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

15. If planned aggregate spending in an economy can be written as PAE = 15,000 + 0.6Y - 20,000r, and potential output equals 36,000, what real interest rate must the central bank set to bring the economy to full employment?

A. 0.02

B. 0.03

C. 0.04

D. 0.05

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #15

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

16. If planned aggregate spending in an economy can be written as PAE = 15,000 + 0.6Y - 20,000r, and potential output equals 35,000, what real interest rate must the central bank set to bring the economy to full employment?

A. 0.02

B. 0.03

C. 0.04

D. 0.05

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #16

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

17. In the short-run, if the central bank increases interest rates, then consumption and investment ______, planned aggregate expenditure ______, and short-run equilibrium output _______.

A. increase; increases; increases

B. increase; increases decreases

C. increase; decreases; decreases

D. decrease; decreases; decreases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #17

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

18. If potential output equals 4,000 and short-run equilibrium output equals 3,500, there is a ______ gap and the central bank must _____ real interest rates in order to close the gap.

A. recessionary; raise

B. recessionary lower

C. recessionary; not change

D. expansionary; raise

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #18

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

19. To close a recessionary gap, the central bank must ____ real interest rates by ______ the money supply.

A. increase; increasing

B. increase; decreasing

C. decrease; decreasing

D. decrease; increasing

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #19
Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.
Section: The Effects of Central Bank Actions on the Economy

20. To close a recessionary gap, the central bank ____ interest rates which ______ planned aggregate spending and _____ short-run equilibrium output.

A. lowers; increases; increases

B. raises; decreases; increases

C. raises; decreases; decreases

D. lowers; increases; decreases

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #20
Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.
Section: The Effects of Central Bank Actions on the Economy

21. In an economy where planned aggregate spending is given by PAE = 5,500 + .6Y - 20,000 r, the central bank is currently setting the interest rate at 0.05 (5 percent). If potential output equals 11,750, the central bank must ____ the interest rate to close the ___________ gap.

A. lower; expansionary

B. lower; recessionary

C. raise; recessionary

D. raise; expansionary

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #21

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

22. In an economy where planned aggregate spending is given by PAE = 5,500 + .6Y - 20,000 r, the central bank is currently setting the interest rate at 0.06 (6 percent). If potential output equals 11,250, the central bank must ____ the interest rate to close the _________ gap.

A. lower; expansionary

B. lower; recessionary

C. raise; recessionary

D. raise; expansionary

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #22

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

23. If the income-expenditure multiplier equals 4 and a 1 percentage point increase in the real interest rate reduces autonomous spending by 100 units, then a 1,000 unit recessionary gap can be eliminated by _____ the real interest rate by _____ percentage points.

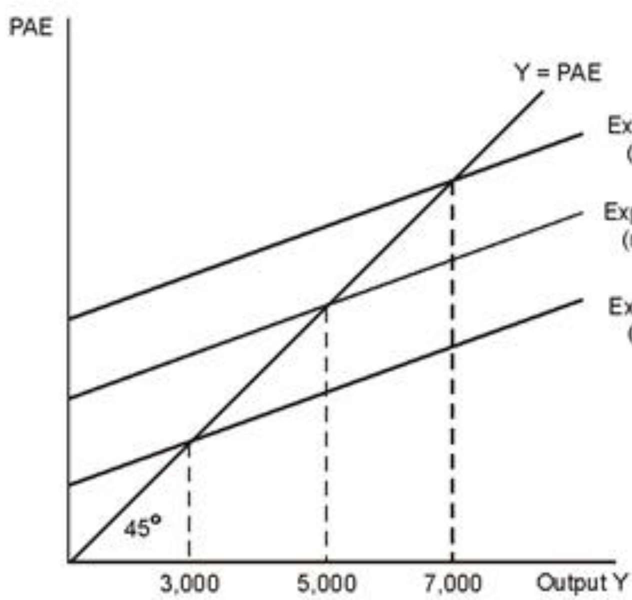
A. increasing; 10

B. increasing; 4

C. increasing ; 2.5

<u>D.</u> decreasing; 2.5

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 22 #23
Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.
Section: The Effects of Central Bank Actions on the Economy



Frank - Chapter 22

24. Refer to the figure above. Based on the diagram, if potential output equals 5,000 and the real interest rate is 5%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. a recessionary; lower

C. no output; not change

D. an expansionary; raise

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #24

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

25. Refer to the figure above. Based on the diagram, if potential output equals 5,000 and the real interest rate is 1%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. a recessionary; lower

C. an expansionary; lower

D. an expansionary; raise

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #25

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

26. Refer to the figure above. Based on the diagram, if potential output equals 5,000 and the real interest rate is 3%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. a recessionary; lower

<u>C.</u> no output; not change

D. an expansionary; raise

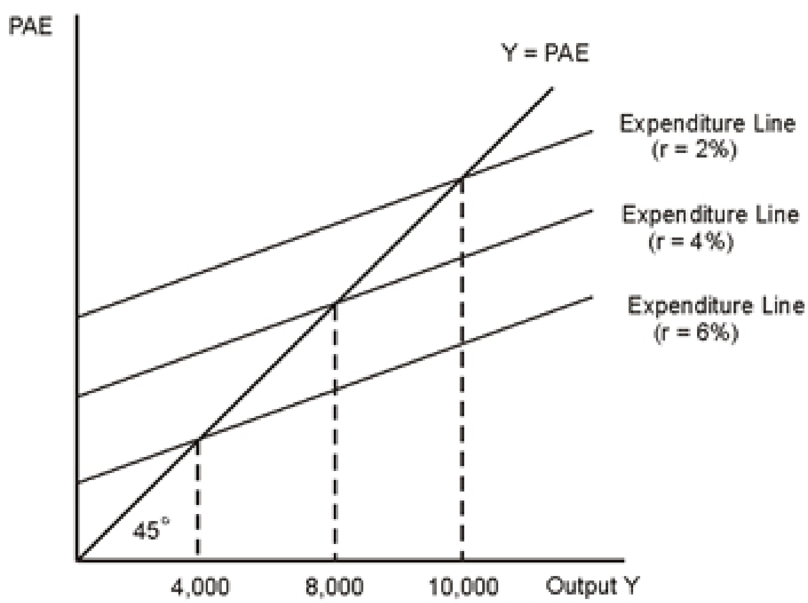
AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #26

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy



Frank - Chapter 22

27. Refer to the figure above. Based on the diagram, if potential output equals 8,000 and the real interest rate is 6%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. a recessionary; lower

C. no output; not change

D. an expansionary; raise

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #27

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

28. Refer to the figure above. Based on the diagram, if potential output equals 8,000 and the real interest rate is 2%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. an expansionary; lower

C. no output; not change

D. an expansionary; raise

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #28

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

29. Refer to the figure above. Based on the diagram, if potential output equals 8,000 and the real interest rate is 4%, then there is ______ gap and the central bank must _____ the real interest rate so that output will equal potential output.

A. a recessionary; raise

B. a recessionary; lower

C. no output; not change

D. an expansionary; raise

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #29

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

30. If potential output equals 3,000 and short-run equilibrium output equals 3,500, there is a(n) ______ gap and the central bank must _____ real interest rates in order to close the gap.

A. recessionary; raise

B. recessionary; lower

C. recessionary; not change

D. expansionary; raise

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #30

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

31. If potential output equals 8,000 and short-run equilibrium output equals 8,500, there is a(n) ______ gap and the central bank must _____ real interest rates in order to close the gap.

A. recessionary; raise

B. recessionary lower

C. recessionary; not change

D. expansionary; raise

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 22 #31
Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.
Section: The Effects of Central Bank Actions on the Economy

32. To close an expansionary gap, the central bank ____ interest rates which ______ planned aggregate spending and _____ short-run equilibrium output.

A. raises; increases; increases

B. raises; decreases; increases

C. raises; decreases; decreases

D. lowers; increases; decreases

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 22 #32
Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.
Section: The Effects of Central Bank Actions on the Economy

33. Central bank actions that increase nominal interest rates and decrease the money supply

A. close a recessionary gap.

B. close an expansionary gap.

C. raise the monetary policy rule.

D. raise bond prices.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #33

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

34. If the income-expenditure multiplier equals 4 and a 1 percentage point increase in the real interest rate reduces autonomous spending by 100 units, then a 1,000 unit expansionary gap can be eliminated by _____ the real interest rate by _____ percentage points.

A. increasing; 10

B. increasing; 4

C. increasing ; 2.5

D. decreasing; 2.5

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #34

Learning Objective: 22-02 Analyze how changes in real interest rates affect planned aggregate expenditures and the short-run equilibrium level of output.

Section: The Effects of Central Bank Actions on the Economy

35. The central bank's monetary policy rule provides information about:

A. economywide money demand and the output gap.

B. economywide money demand and the long-run target for inflation.

C. the long-run target for inflation and how aggressively targets will be pursued.

D. the short-run target for inflation and how aggressively target will be pursued.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #35
Learning Objective: 22-03 Define what a monetary policy rule is and relate this concept to the central bank's role in stabilization policy.
Section: The Effects of Central Bank Actions on the Economy

36. The monetary policy rule described in the text summarizes the relationship between changes in

A. unemployment and the output gap.

B. unemployment and inflation.

C. inflation and the real interest rate.

D. the real interest rate and the output gap.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #36
Learning Objective: 22-03 Define what a monetary policy rule is and relate this concept to the central bank's role in stabilization policy.
Section: The Effects of Central Bank Actions on the Economy

37. The monetary policy rule described in the text is graphed as _______.

A. a downward-sloping line.

B. an upward-sloping line.

C. the intersection of supply and demand.

D. two parallel lines.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #37

Learning Objective: 22-03 Define what a monetary policy rule is and relate this concept to the central bank's role in stabilization policy.

Section: The Effects of Central Bank Actions on the Economy

38. According to the monetary policy rule, if actual inflation exceeds the target rate of inflation,

A. the central bank will lower interest rates.

B. the central bank will raise interest rates.

C. the central bank will increase the money supply.

D. the central bank will set the interest rate equal to the rate of inflation.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #38

Learning Objective: 22-03 Define what a monetary policy rule is and relate this concept to the central bank's role in stabilization policy.

Section: The Effects of Central Bank Actions on the Economy

39. If the central bank is following a steep monetary policy rule, it will

A. aggressively increase inflation if the interest rate exceeds the target interest rate.

B. aggressively increase interest rates if the inflation rate exceeds the target inflation rate.

C. only slightly increase inflation if the interest rate exceeds the target interest rate.

D. only slightly increase interest rates if the inflation rate exceeds the target inflation rate.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #39

Learning Objective: 22-03 Define what a monetary policy rule is and relate this concept to the central bank's role in stabilization policy.

Section: The Effects of Central Bank Actions on the Economy

40. If the central bank is following a flat monetary policy rule, it will

A. aggressively increase inflation if the interest rate exceeds the target interest rate.

B. aggressively increase interest rates if the inflation rate exceeds the target inflation rate.

C. only slightly increase inflation if the interest rate exceeds the target interest rate.

D. only slightly increase interest rates if the inflation rate exceeds the target inflation rate.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #40

Learning Objective: 22-03 Define what a monetary policy rule is and relate this concept to the central bank's role in stabilization policy.

Section: The Effects of Central Bank Actions on the Economy

41. The opportunity cost of money is:

A. the time spent going to the bank to withdraw funds.

B. the fees charged by banks to provide checking services.

C. the nominal interest rate.

D. the price level.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #41

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Central Bank and Interest Rates

42. The decision about the forms in which to hold one's wealth is called the _______ decision.

A. Taylor

B. portfolio allocation

C. Fisher effect

D. life-cycle

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #42

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Central Bank and Interest Rates

43. The portfolio allocation decision is the decision about:

A. how to spread one's consumption over the life-cycle.

B. how much more to consume when disposable income increases by one dollar.

C. the forms in which to hold one's wealth.

D. how to allocate income between saving and consumption.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #43

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Central Bank and Interest Rates

44. The demand for money is:

A. unlimited, since people want to hold as much money as possible.

B. limited by the amount of currency printed by the government.

C. the amount of wealth an individual chooses to hold in the form of money.

D. the amount of income an individual chooses to hold in the form of money.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #44

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Central Bank and Interest Rates

45. The amount of wealth an individual chooses to hold in the form of money is called:

A. the money reaction function.

B. the demand for money.

C. the supply of money.

D. the private reserve requirement.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #45

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Central Bank and Interest Rates

46. How much money to hold is an application of the:

A. scarcity principle.

B. principle of comparative advantage.

C. equilibrium principle.

D. cost-benefit principle.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #46

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

47. The benefit of holding money is _______, while the opportunity cost of holding money is _______.

A. the nominal interest rate; the fees charged by banks

B. the nominal interest rate; its usefulness in carrying out transactions

C. increased income; lost purchasing power

D. its usefulness in carrying out transactions; the nominal interest rate

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #47
Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.
Section: The Effects of Central Bank Actions on the Economy

48. The usefulness of money in carry out transactions is its _____ and the nominal interest rate is its ____.

A. supply; demand

B. demand; supply

C. cost; benefit

D. benefit; cost

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #48
Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.
Section: The Effects of Central Bank Actions on the Economy

49. Innovations, such as credit cards, debit cards, and ATMs have:

A. increased the demand for money.

B. decreased the demand for money.

C. had no impact on the supply or demand for money.

D. increased the supply of money.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #49

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

50. The following table shows Adam's estimated annual benefits of holding different amounts of money.

Average money holdings ($)	Total benefit ($)
700	50
800	59
900	66
1000	71
1100	74

How much money will Adam hold if the nominal interest rate is 8 percent? (Assume she wants her money holdings to be in multiples of $100.)

A. 700

B. 800

C. 900

D. 1000

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #50

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

51. The following table shows Adam's estimated annual benefits of holding different amounts of money.

Average money holdings ($)	Total benefit ($)
700	50
800	59
900	66
1000	71
1100	74

How much money will Adam hold if the nominal interest rate is 6 percent? (Assume she wants her money holdings to be in multiples of $100.)

A. 700

B. 800

C. 900

D. 1000

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #51

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

52. The following table shows Adam's estimated annual benefits of holding different amounts of money.

Average money holdings ($)	Total benefit ($)
700	50
800	59
900	66
1000	71
1100	74

How much money will Adam hold if the nominal interest rate is 4 percent? (Assume she wants her money holdings to be in multiples of $100.)

A. 700

B. 800

C. 900

D. 1000

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 22 #52
Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.
Section: The Effects of Central Bank Actions on the Economy

53. Three macroeconomic factors that affect the demand for money are:

A. the nominal interest rate; real income, and the price level.

B. the nominal interest rate; capital, and labor.

C. globalization, skill-biased technological change, and labor mobility.

D. capital, labor, and technology.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #53
Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.
Section: The Effects of Central Bank Actions on the Economy

54. Higher nominal interest rates ____ the demand for money and higher real income ___ the demand for money.

A. increase; increases

B. increase; decreases

C. decrease; increases

D. decrease; decreases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #54

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

55. Lower nominal interest rates ____ the demand for money and lower real income ___ the demand for money.

A. increase; increases

B. increase; decreases

C. increase; does not change

D. decrease; decreases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #55

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

56. Higher nominal interest rates ____ the demand for money and a higher price level ___ the demand for money.

A. increase; increases

B. increase; decreases

C. decrease; increases

D. decrease; decreases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #56

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

57. Lower nominal interest rates ____ the demand for money and a lower price level ___ the demand for money.

A. increase; increases

B. increase; decreases

C. increase; does not change

D. decrease; decreases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #57

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

58. Lower real income ____ the demand for money and a lower price level ___ the demand for money.

A. increases; increases

B. increases; decreases

C. increases; does not change

D. decreases; decreases

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #58
Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.
Section: The Effects of Central Bank Actions on the Economy

59. Higher real income ____ the demand for money and a higher price level ___ the demand for money.

A. increases; increases

B. increases; decreases

C. decreases; increases

D. decreases; decreases

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #59
Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.
Section: The Effects of Central Bank Actions on the Economy

60. Which of the following would be expected to increase the demand for money?

<u>A.</u> Financial investors become concerned about increasing riskiness of stocks.

B. The economy enters a recession.

C. Political instability decreases dramatically in other less developed nations.

D. On-line banking allows customers to transfer funds between checking and stock mutual funds 24 hours a day.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #60

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

61. Which of the following would be expected to increase the demand for money?

A. Competition among brokers forces down the commission charge for selling bonds or stocks.

B. The economy enters a recession.

<u>C.</u> Political instability increases dramatically in other less developed nations.

D. On-line banking allows customers to transfer funds between checking and stock mutual funds 24 hours a day.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #61

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

62. Which of the following would be expected to decrease the demand for money?

A. Competition among brokers forces down the commission charge for selling bonds or stocks.
B. The economy enters a boom period.
C. Political instability increases dramatically in other less developed nations.
D. Households fear increasing computer glitches will severely limit their ability to use ATMs.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #62
Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.
Section: The Effects of Central Bank Actions on the Economy

63. Which of the following would be expected to decrease the demand for money?

A. Grocery stores begin to accept credit cards in payment.
B. The economy enters a boom period.
C. Political instability increases dramatically in other less developed nations.
D. Households fear increasing computer glitches will severely limit their ability to use ATMs.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #63
Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.
Section: The Effects of Central Bank Actions on the Economy

64. The money demand curve relates _______ to the _______.

A. the aggregate quantity of money demanded; aggregate demand

B. aggregate demand; nominal interest rate

C. the aggregate quantity of money demanded; price level

D. the aggregate quantity of money demanded; nominal interest rate

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #64

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

65. The money demand curve will shift to the right if:

A. the nominal interest rate increases.

B. the nominal interest rate decreases.

C. the price level increases.

D. the price level decreases.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #65

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

66. The money demand curve will shift to the right if:

A. the nominal interest rate increases.

B. real income increases.

C. ATM machines are introduced.

D. the price level decreases.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #66

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

67. The money demand curve will shift to the left if:

A. the nominal interest rate increases.

B. the nominal interest rate decreases.

C. ATM machines are introduced.

D. the price level increases.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #67

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

68. The money demand curve will shift to the left if:

A. the nominal interest rate increases.

B. the nominal interest rate decreases.

C. price level increases.

D. the price level decreases.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #68

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

69. The money demand curve will shift to the left if:

A. the nominal interest rate increases.

B. the nominal interest rate decreases.

C. price level increases.

D. real income decreases.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #69

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

70. When Egyptians increase their savings in UAE dirhams, the UAE money:

A. supply curve shifts left.

B. supply curve shifts right.

C. demand curve shifts right.

D. demand curve shifts left.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #70

Learning Objective: 22-04 Show how the demand for money and the supply of money interact to determine the equilibrium nominal interest rate.

Section: The Effects of Central Bank Actions on the Economy

71. Because an increase in the nominal interest rate raises the opportunity costs of holding money, the money demand curve:

A. shifts to the right.

B. shifts to the left.

C. slopes upward.

D. slopes downward.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #71
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

72. Because the central bank determines the money supply, the:

A. money supply curve is downward sloping.

B. money supply curve is upward sloping.

C. money supply curve is vertical.

D. money supply curve is horizontal.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #72
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

73. The equilibrium quantity of money in circulation is determined by:

A. the interaction of money supply and money demand.

B. the nominal interest rate, real income, and the price level.

C. the central bank.

D. individuals, households, and businesses.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #73
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

74. If the nominal interest rate is below the equilibrium value, then money demand is ______ than money supply, bond prices will ____, and the nominal interest rate will ____.

A. greater; fall; increase

B. greater; fall; decrease

C. greater; rise; increase

D. less; fall; increase

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 22 #74
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

75. If the nominal interest rate is above the equilibrium value, then money demand is ______ than money supply, bond prices will ____, and the nominal interest rate will ____.

A. greater; fall; increase

B. less; rise; decrease

C. greater; rise; increase

D. less; fall; increase

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 22 #75
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

76. If the money supply exceeds money demand, people will ____ bonds which will cause bond prices to ____ and the nominal interest rate to _____ until money demand equals money supply.

A. buy; rise; fall

B. sell; fall; fall

C. sell; rise; fall

D. buy; fall; rise

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 22 #76
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

77. If the money supply is less than money demand, people will ____ bonds which will cause bond prices to ____ and the nominal interest rate to _____ until money demand equals money supply.

A. sell; fall; rise

B. sell; fall; fall

C. sell; rise; fall

D. buy; fall; rise

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 22 #77
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

78. During the holiday shopping season the demand for money increases significantly. If the central bank takes no actions to offset the increase in money demand, then nominal interest rates will ____.

A. increase.

B. decrease.

C. remain constant.

D. equal the real interest rates.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #78
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

79. Prior to January 2000, the demand for money increased as people anticipated Y2K problems. If the central bank took no actions to offset this increase in money demand, then nominal interest rates would _____.

A. increase.
B. decrease.
C. remain constant.
D. equal the real interest rates.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #79
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

80. If the central bank wishes to reduce nominal interest rates, it must engage in an open market ____ of bonds that ____ the money supply.

A. sale; increases
B. sale; decreases
C. purchase; decreases
D. purchase; increases

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #80
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

81. If the central bank wishes to increase nominal interest rates, it must engage in an open market ____ of bonds that ____ the money supply.

A. sale; increases

B. sale; decreases

C. sale; does not change

D. purchase; increases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #81

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

82. When the central bank engages in an open market purchase, the money supply ____ and the nominal interest rate ______.

A. increases; increases

B. increases; decreases

C. decreases; decreases

D. decreases; increases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #82

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

83. When the central bank engages in an open market sale, the money supply ____ and the nominal interest rate ______.

A. increases; increases

B. increases; decreases

C. decreases; decreases

<u>D.</u> decreases; increases

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #83
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

84. During the holiday shopping season the demand for money increases significantly. To offset the increase in money demand, the central bank must _____ the money supply in order to _____ nominal interest rates.

<u>A.</u> increase; decrease

B. increase; increase

C. decrease; decrease

D. decrease; increase

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #84
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

85. Prior to January 2000, the demand for money increased as people anticipated Y2K problems. To offset this increase in money demand, the central bank would have to _____ the money supply in order to ____ nominal interest rates.

A. increase; decrease

B. increase; increase

C. decrease; decrease

D. decrease; increase

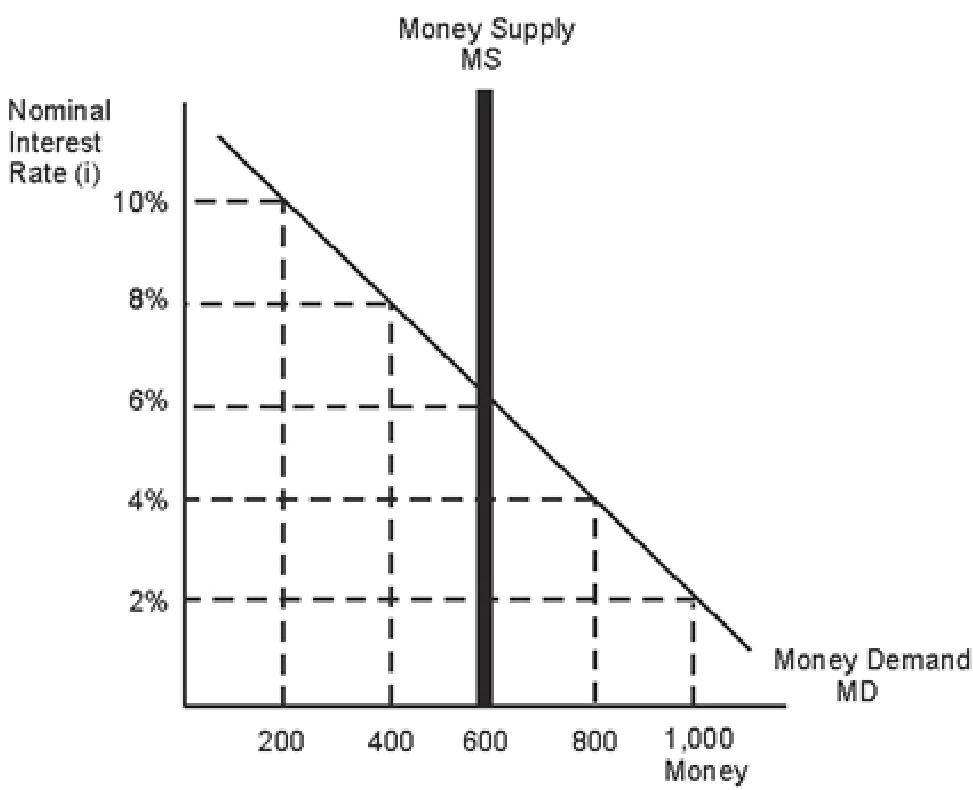
AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #85

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates



Frank - Chapter 22

86. Refer to the figure above. Based on the diagram the nominal interest rate equals 6% and the money supply equals 600. If the central bank wants to lower the interest rate to 4%, it must _____ the money supply to _____.

A. increase; 800
B. decrease; 800
C. increase; 1,000
D. increase; 400

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 22 #86
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

87. Refer to the figure above. Based on the diagram the nominal interest rate equals 6% and the money supply equals 600. If the central bank wants to raise the interest rate to 8%, it must _____ the money supply to _____.

A. increase; 800
B. decrease; 800
C. decrease; 400
D. increase; 400

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 22 #87
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

88. Refer to the figure above. Based on the diagram the nominal interest rate equals 6% and the money supply equals 600. If the central bank wants to set the nominal interest rate at 10%, it must conduct open market _____ to set the money supply at _____.

A. purchases; 200

B. sales; 200

C. purchases; 800

D. sales; 800

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #88

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

89. Refer to the figure above. Based on the diagram the nominal interest rate equals 6% and the money supply equals 600. If the central bank wants to set the nominal interest rate at 4%, it must conduct open market _____ to set the money supply at _____.

A. purchases; 200

B. sales; 200

C. purchases; 800

D. sales; 800

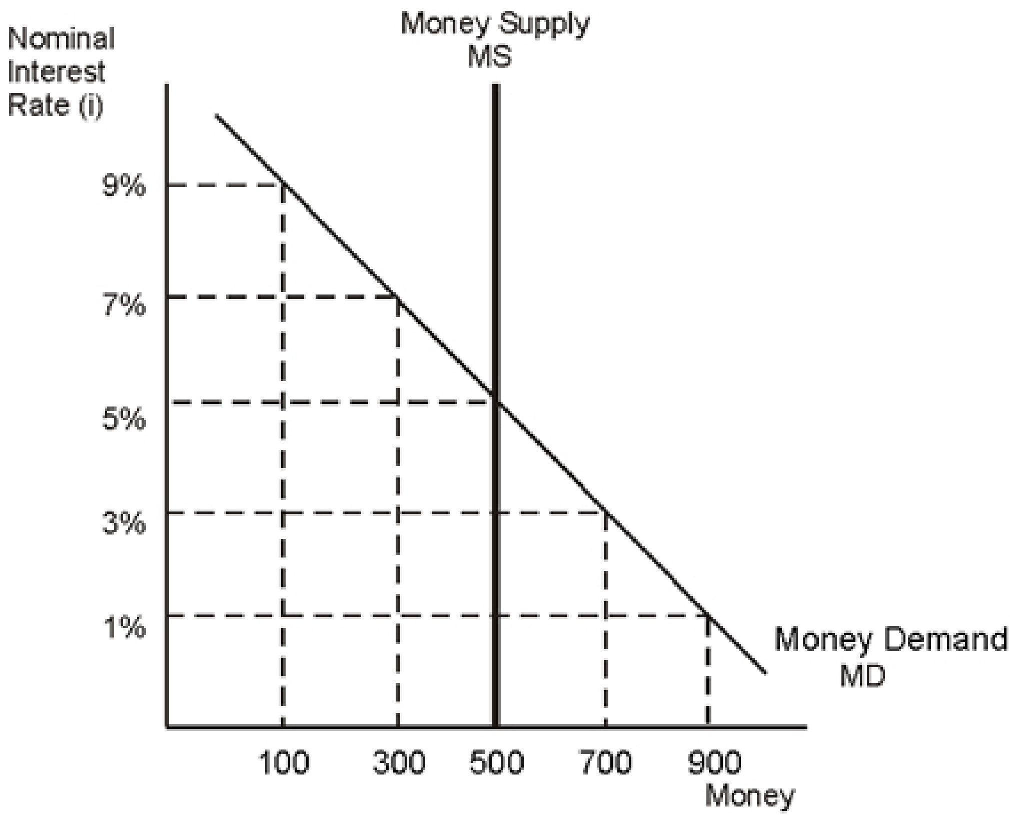
AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #89

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates



Frank - Chapter 22

90. Refer to the figure above. Based on the diagram the nominal interest rate equals ____ and the money supply equals ____.

A. 7%; 300

B. 1%; 500

C. 5%; 500

D. 3%; 700

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #90

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

91. Refer to the figure above. If the central bank wants to lower the interest rate to 3%, it must _____ the money supply to _____.

A. increase; 300

B. decrease; 300

C. increase; 900

D. increase; 700

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #91

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

92. Refer to the figure above. If the central bank wants to raise the interest rate to 7%, it must _____ the money supply to _____.

A. increase; 300

B. decrease; 300

C. increase; 900

D. increase; 700

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #92

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

93. Refer to the figure above. If the central bank wants to set the nominal interest rate at 9%, it must conduct open market _____ to set the money supply at _____.

A. purchases; 100

B. sales; 100

C. purchases; 900

D. sales; 900

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #93

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

94. Refer to the figure above. If the central bank wants to set the nominal interest rate at 1%, it must conduct open market _____ to set the money supply at _____.

A. purchases; 300

B. sales; 100

C. purchases; 900

D. sales; 900

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #94

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

95. The central bank can:

A. simultaneously set any money supply and any nominal interest rate target.

B. set the target money supply and target nominal interest rate independently.

C. only set a money supply target that is consistent with the target nominal interest rate.

D. only target the money supply, not the nominal interest rate.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #95
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

96. If the central bank sets a target nominal interest rate, it can:

A. independently set a target money supply.

B. only set a money supply target that is consistent with the target nominal interest rate target.

C. simultaneously set any money supply target.

D. shift the money demand curve to the right.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #96
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

97. When the central bank lends reserves to commercial banks, this is an example of:

A. a change in reserve requirements.

B. an open-market sale.

C. an open-market purchase.

D. discount window lending.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #97

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

98. When making discount window loans, the central bank lends bank reserves to:

A. the government.

B. the nonbank public.

C. commercial banks.

D. foreign governments.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #98

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

99. The central bank discount rate is the rate of interest charged on loans from _____ to _____.

A. the central bank; commercial banks

B. the central bank; the government

C. commercial banks; the central bank

D. the government; commercial banks

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #99

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

100. The interest rate the central bank charges commercial banks to borrow reserves is called the _____ rate.

A. central bank funds

B. prime

C. discount

D. Federal

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #100

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

101. When commercial banks borrow reserves from the central bank, the quantity of reserves in the banking system _____ and ultimately the money supply _____.

A. increases; increases

B. increases; decreases

C. decreases; increases

D. decreases; decreases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #101

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

102. When the central bank lends bank reserves by discount window lending, the quantity of reserves in the banking system _____ and ultimately the money supply _____.

A. increases; increases
B. increases; decreases
C. increases; does not change
D. decreases; decreases

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #102
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

103. When banks borrow funds via the central bank's discount window:

A. interest rates rise.
B. the reserve/deposit ratio falls.
C. bank reserves are increased and ultimately bank deposits and the money supply increase.
D. bank reserves are decreased and ultimately bank deposits and the money supply decrease.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #103
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

104. In Macroland, currency held by the public is 2,000 econs, bank reserves are 300 econs, and the desired reserve/deposit ratio is 15 percent. If commercial banks borrow 100 econs in reserves from the Central Bank through discount window lending, then the money supply in Macroland will _____ to _____ econs, assuming that the public does not wish to change the amount of currency it holds.

A. increase; 3,133

B. increase; 4,100

C. increase; 4,667

D. increase; 2,667

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #104

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

105. In Macroland, currency held by the public is 2,000 econs, bank reserves are 300 econs, and the desired reserve/deposit ratio is 15 percent. If commercial banks repay 100 econs in reserves from the Central Bank through discount window lending, then the money supply in Macroland will _____ to _____ econs, assuming that the public does not wish to change the amount of currency it holds.

A. increase; 3,133

B. decrease; 1,133

C. decrease; 4,667

D. decrease; 3,133

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #105

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

106. Reserve requirements set by the central bank are the:

<u>A.</u> minimum value of reserves to deposits that commercial banks are allowed to maintain.

B. maximum value of reserves to deposits that commercial banks are allowed to maintain.

C. minimum amount of currency banks must hold in their vaults.

D. maximum amount of currency banks are allowed to hold in their vaults.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #106

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

107. The minimum values of the ratio of bank reserves to bank deposits that the central bank allows commercial banks to hold are called:

A. open-market purchases.

B. open-market sales.

C. the discount rate.

<u>D.</u> reserve requirements.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #107

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

108. If commercial banks are maintaining a 4 percent reserve/deposit ratio and the central bank raises the required reserve ratio to 6 percent, then banks will _____ the deposits they accept and the money supply will _____.

A. increase; increase

B. increase; decrease

C. decrease; increase

D. decrease; decrease

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #108

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

109. If commercial banks are maintaining a 5 percent reserve/deposit ratio and the central bank lowers the required reserve ratio so that the new desired reserve/deposit ratio is 3 percent, then banks will _____ the deposits they accept and the money supply will _____.

A. increase; increase

B. increase; decrease

C. decrease; increase

D. decrease; decrease

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 22 #109

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

110. The central bank can increase the money supply by:

A. reducing reserve requirements.

B. increasing the discount rate.

C. eliminating deposit insurance.

D. conducting open market sales.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #110

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

111. The central bank can decrease the money supply by:

A. increasing reserve requirements.

B. decreasing the discount rate.

C. introducing deposit insurance.

D. conducting open market purchases.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 22 #111

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

112. If the central bank wants to increase the money supply, it should:

A. increase reserve requirements.

B. increase the discount rate.

C. conduct open-market purchases.

D. conduct open-market sales.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #112

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

113. If the central bank wants to decrease the money supply, it should:

A. decrease reserve requirements.

B. decrease the discount rate.

C. conduct open-market purchases.

D. conduct open-market sales.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #113

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

114. If inflation does not adjust rapidly in the short run, then when the central bank increases the nominal interest rate, the real interest rate in the short run will ____.

A. increase

B. decrease

C. not change

D. equal the nominal interest rate

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #114

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

115. If inflation does not adjust rapidly in the short run, then when the central bank decreases the nominal interest rate, the real interest rate in the short run will ____.

A. increase

B. decrease

C. not change

D. equal the nominal interest rate

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #115
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

116. In the long run the real interest rate is determined by ______, and in the short-run the central bank can control the real interest rate by setting the nominal interest rate if inflation adjusts _____.

A. saving and investment; slowly

B. saving and investment; quickly

C. the central bank; quickly

D. the central bank; slowly

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #116
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

117. The _____ is the interest rate commercial banks pay to the central bank; the _____ is the interest rate commercial banks charge each other for short-term loans.

A. interbank rate; discount rate

B. discount rate; interbank rate

C. nominal interest rate; real interest rate

D. nominal interest rate; prime rate of interest

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 22 #117
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

118. Any value of the money supply chosen by the central bank implies a specific value for ______.

A. potential output

B. the nominal interest rate

C. government purchases

D. the budget deficit

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 22 #118
Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.
Section: The Central Bank and Interest Rates

119. Any value of the nominal interest rate chosen by the central bank implies a specific value for _____.

A. potential output

B. the money supply

C. government purchases

D. the budget deficit

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 22 #119

Learning Objective: 22-05 Discuss how the central bank uses its ability to control the money supply to influence nominal and real interest rates.

Section: The Central Bank and Interest Rates

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