

Pool Canvas

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Name TestBanks Chapter 11 Multiple-Choice Questions
Description Question pool for TestBanks Chapter 11 Multiple-Choice Questions
Instructions

[Modify](#)

[Add Question Here](#)

Question 1 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question
The Federal Reserve System is divided into _____ districts.
Answer
four
✓ twelve
eight
six

[Add Question Here](#)

Question 2 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question
Formally, a Federal Reserve Bank is owned by the:
Answer ✓ commercial banks in its district.
federal government.
Treasury Department.
Department of Commerce.

[Add Question Here](#)

Question 3 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question
Banks that are members of the Fed purchase stock in the Federal Reserve banks in their district and receive a dividend equal to:
Answer
2 percent annually.
the discount rate.
✓ 6 percent annually.
the federal funds rate.

[Add Question Here](#)

Question 4 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question
Each Federal Reserve bank has nine directors; _____ are appointed by the member banks and _____ are appointed by its Board of Governors.
Answer
three; six
✓ six; three
four; five
two; seven

[Add Question Here](#)

Question 5 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question
Members of the Board of Governors of the Federal Reserve are _____ and serve for _____ years.
Answer
elected by Federal Reserve bank presidents; 6
elected by the U.S. Senate; 4
✓ appointed by the President; 14
appointed by the Speaker of the House; 12

[Add Question Here](#)

Question 6 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question
The current Chairman of the Board of Governors of the Federal Reserve is:
Answer ✓ Ben Bernanke.
Alan Greenspan.
Paul Volker.
Laurence Ball.

[Add Question Here](#)

Question 7 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question
The term of the Fed chair is _____ year(s).
Answer
1
✓ 4
12
14

[Add Question Here](#)

Question 8	Multiple Choice	0 points	Modify Remove
Question			
Congress established the Federal Reserve system primarily to _____.			
Answer ✓ serve as a lender of last resort.			
establish a common currency throughout the country.			
create a strong central bank.			
eliminate political influence on monetary policy.			
			Add Question Here
Question 9	Multiple Choice	0 points	Modify Remove
Question			
The Federal Reserve System was created in _____ and divided the United States into _____ Federal Reserve Districts.			
Answer			
1863; 7			
1863; 5			
✓ 1913; 12			
1913; 5			
			Add Question Here
Question 10	Multiple Choice	0 points	Modify Remove
Question			
The Federal Reserve System is overseen by:			
Answer			
the Office of the Comptroller of the Currency.			
the Federal Deposit Insurance Corporation.			
the U.S. Treasury.			
✓ a Board of Governors.			
			Add Question Here
Question 11	Multiple Choice	0 points	Modify Remove
Question			
Each regional Federal Reserve Bank has _____ directors, _____ of them are elected by commercial bank members of that district.			
Answer			
9; 3			
✓ 9; 6			
12; 3			
12; 6			
			Add Question Here
Question 12	Multiple Choice	0 points	Modify Remove
Question			
Each regional Federal Reserve Bank is:			
Answer			
entirely owned by the U.S. government.			
✓ owned by commercial banks in the district.			
controlled only by the commercial banks in the district.			
Answers b and c are correct.			
			Add Question Here
Question 13	Multiple Choice	0 points	Modify Remove
Question			
The Board of Governors of the Federal Reserve System is composed of _____ members and it is located in _____.			
Answer			
7; New York			
12; Washington D.C.			
✓ 7; Washington D.C.			
5; New York			
			Add Question Here
Question 14	Multiple Choice	0 points	Modify Remove
Question			
M1 is:			
Answer ✓ currency + traveler's checks + checking deposits			
currency + coins			
currency + checking deposits			
currency			
			Add Question Here
Question 15	Multiple Choice	0 points	Modify Remove
Question			
The Fed creates _____ while _____ is(are) created by banks and their customers.			
Answer			
M1; M2			
✓ the monetary base; checking deposits			
currency; the monetary base			
traveler's checks; coins			
			Add Question Here
Question 16	Multiple Choice	0 points	Modify Remove

Question

If M stands for money, C is currency, D is checking deposits, and R is reserves, we can write the monetary base, B , as:

Answer

$$B = M + D$$

$$✓ B = C + R$$

$$B = M/D$$

$$B = M + R$$

[◀ Add Question Here](#)

[Modify](#)

[Remove](#)

Question 17

Multiple Choice

0 points

Question

The monetary base is:

- Answer** ✓
- currency + reserves
 - currency + checkable deposits
 - checkable deposits + reserves
 - currency + monetary base

[◀ Add Question Here](#)

[Modify](#)

[Remove](#)

Question 18

Multiple Choice

0 points

Question

The monetary base minus reserves equals:

- Answer**
- checking deposits.
 - money supply.
 - currency in circulation.
 - federal funds.

[◀ Add Question Here](#)

[Modify](#)

[Remove](#)

Question 19

Multiple Choice

0 points

Question

Currency in circulation plus reserves equals:

- Answer** ✓
- the monetary base.
 - M1.
 - M2.
 - open-market operations.

[◀ Add Question Here](#)

[Modify](#)

[Remove](#)

Question 20

Multiple Choice

0 points

Question

Which of the following is part of the monetary base?

- Answer**
- time deposits
 - traveler's checks
 - currency in circulation
 - All of the answers are correct.

[◀ Add Question Here](#)

[Modify](#)

[Remove](#)

Question 21

Multiple Choice

0 points

Question

We can interpret the monetary base as the:

- Answer**
- total value of bonds in an economy.
 - total value of assets in an economy.
 - liabilities of the Fed to the private sector.
 - value of bank reserves.

[◀ Add Question Here](#)

[Modify](#)

[Remove](#)

Question 22

Multiple Choice

0 points

Question

An open-market operation is:

- Answer** ✓
- a purchase or sale of bonds by the central bank.
 - buying or selling dollars in the foreign exchange market.
 - equivalent to printing money.
 - a purchase of real government assets by the Fed.

[◀ Add Question Here](#)

[Modify](#)

[Remove](#)

Question 23

Multiple Choice

0 points

Question

If the Fed wishes to conduct an expansionary open-market operation, it:

- Answer**
- auctions money through the Term Auction Facility.
 - buys bonds from a dealer.
 - loans money to a bank from the discount window.
 - prints money.

[◀ Add Question Here](#)

[Modify](#)

[Remove](#)

Question 24

Multiple Choice

0 points

Question

When the Fed sells a government bond to a member bank, reserves _____ and the monetary base _____.

- Answer**
- decrease, decreases
 - increase, increases
 - increase, stays the same
 - stay the same, decreases

[◀ Add Question Here](#)

Question 25 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When the Fed conducts a contractionary open-market operation of \$100, it:

- Answer**
- reduces reserves by \$100.
 - decreases a bank's cash holdings by \$100.
 - reduces the monetary base by \$100.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 26 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When the Fed buys \$100 worth of bonds from a member bank:

- Answer**
- reserves increase by \$100.
 - bank assets decrease by \$100.
 - it reduces the monetary base by more than \$100.
 - transaction account assets increase by less than \$100.

[◀ Add Question Here](#)

Question 27 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The Fed can increase the monetary base by:

- I. using an open-market purchase.
- II. making a discount loan.
- III. making loans through its Term Auction Facility.

- Answer**
- I only
 - II only
 - III only
 - I, II, and III

[◀ Add Question Here](#)

Question 28 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The instrument the Fed uses most often to change the monetary base is:

- Answer**
- printing money.
 - discount loans.
 - open-market operations.
 - Term Auction Facility loans.

[◀ Add Question Here](#)

Question 29 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The oldest monetary policy tool used by the Fed is:

- Answer**
- open-market operations.
 - the discount loan.
 - the Term Auction Facility loan.
 - printing money.

[◀ Add Question Here](#)

Question 30 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the text, which of the following is the newest tool used by the Fed for increasing the monetary base?

- Answer**
- the Term Auction Facility loan
 - discount loan
 - open-market loan
 - open-market operations

[◀ Add Question Here](#)

Question 31 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The Fed increases the monetary base by:

- I. lending through the Term Auction Facility.
- II. lending to banks through the discount window.
- III. increasing interest rates.

- Answer**
- I only
 - I and II only
 - I and III only
 - I, II, and III

[◀ Add Question Here](#)

Question 32 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

During the financial crisis that began in 2007, the Fed started:

- Answer**
- selling Treasury bonds.
 - raising interest rates to control inflation.
 - purchasing Treasury bonds.
 - purchasing bonds issued by Fannie Mae.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 33 **Multiple Choice** **0 points**

Question

When the Fed expands its balance sheet, it ____ its ____.

- Answer**
- increases; vault cash
 - decreases; liabilities
 - increases; assets
 - decreases; assets

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 34 **Multiple Choice** **0 points**

Question

Suppose the Fed lends \$500 to a commercial bank. As a result of this transaction, _____ and _____.

- Answer**
- deposits increase by \$500; the monetary base increases by \$500
 - reserves increase by \$500; the monetary base increases by \$500
 - currency increases by \$500; the money supply increases by \$500
 - reserves increase by \$500; the money supply increases by \$500

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 35 **Multiple Choice** **0 points**

Question

If you withdraw \$500 from an ATM and put it in your pocket, this ____ currency in circulation and ____ the monetary base.

- Answer**
- reduces; reduces
 - increases; increases
 - has no effect on; reduces
 - increases; has no effect on

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 36 **Multiple Choice** **0 points**

Question

Members of the Boards of Governors of the Federal Reserve System serve ____ -year nonrenewable terms, while the term of the Fed chair is ____ years.

- Answer**
- 14; 10
 - 8; 10
 - 14; 4
 - 8; 4

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 37 **Multiple Choice** **0 points**

Question

If M stands for the money supply, C for currency in circulation, D for checking deposits, and R is for reserves, which of the following expressions is correct?

- Answer**
- $M = R \times D$
 - $M = C / (D + R)$
 - $M = C + D$
 - $M = C D + R$

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 38 **Multiple Choice** **0 points**

Question

If B stands for the monetary base, C for currency in circulation, D for deposits, and R for reserves of the banking system, which of the following expressions is correct?

- Answer**
- $B = C + R$
 - $B = C - R$
 - $B = (D + C) / R$
 - $B = C \times D$

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 39 **Multiple Choice** **0 points**

Question

When the Fed buys U.S. Treasury bonds, the monetary base ____; this is called a(n) ____ open-market operation.

- Answer**
- increases; expansionary
 - decreases; expansionary
 - increases; contractionary
 - decreases; contractionary

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 40 **Multiple Choice** **0 points**

Question

When the Fed makes a discount loan to a bank, the monetary base _____, and the bank pays the Fed the _____ rate.

- Answer**
- risers; federal funds
 - falls; discount
 - ✓ rises; discount
 - stays the same; federal funds

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 41 **Multiple Choice** **0 points**

Question

When the Fed sells U.S. Treasury bonds for a value of \$1 million, the monetary base:

- Answer**
- remains unchanged.
 - increases by \$1 million.
 - decreases by \$2 million.
 - ✓ decreases by \$1 million.

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 42 **Multiple Choice** **0 points**

Question

Which of the following include liabilities of the Fed?

- Answer** ✓
- bank reserves
 - loans to commercial banks in the 10th district
 - government bonds
 - loans to commercial banks in the 8th district

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 43 **Multiple Choice** **0 points**

Question

Which of the following are assets of the Fed?

- Answer**
- bank reserves
 - coins
 - ✓ government bonds
 - federal reserve notes

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 44 **Multiple Choice** **0 points**

Question

Suppose you take \$50 from your wallet and you deposit it into your checking account. As a result:

- Answer**
- the monetary base rises.
 - the monetary base falls.
 - ✓ currency in circulation decreases.
 - reserves of the banking system decrease.

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 45 **Multiple Choice** **0 points**

Question

Currency in circulation and in bank reserves are Federal Reserve:

- Answer**
- assets.
 - ✓ liabilities.
 - net worth.
 - bank capital.

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 46 **Multiple Choice** **0 points**

Question

_____ and _____ are assets in the Federal Reserve's balance sheet.

- Answer**
- Government bonds; reserves
 - Federal fund loans; reserves
 - Reserves; currency in circulation
 - ✓ Discount loans; government bonds

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 47 **Multiple Choice** **0 points**

Question

The money supply is affected by:

- I. changes in the monetary base.
- II. changes in a bank's currency–deposit ratio.
- III. the speed of money printing presses.

- Answer** ✓
- I and II
 - I only
 - III only
 - I and III

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 48 **Multiple Choice** **0 points**

Question

Without a banking system, the monetary base and money supply are equal to:

- Answer**
- deposits.
 - reserves.
 - ✓ currency in circulation.
 - None of the answers are correct.

◀ [Add Question Here](#)

Question 49 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

A _____ in the deposit–loan process occurs if, after receiving a loan, you choose *not* to deposit the money; and/or you do deposit the money and a bank chooses *not* to make a new loan.

- Answer**
- ✓ leakage
 - split
 - liquid loss
 - transaction break

◀ [Add Question Here](#)

Question 50 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose you find \$1000 buried in your backyard that was *not* in circulation; if you decide to keep it there,

- Answer**
- federal funds fall.
 - reserves fall and the monetary base rises.
 - ✓ the monetary base and M1 are unchanged.
 - M1 rises and reserves fall.

◀ [Add Question Here](#)

Question 51 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose that while out trying out your new money finder, you find \$1000 buried in the park; you deposit the money and the bank holds it in reserve. What happens?

- Answer**
- Only the money supply rises.
 - ✓ The monetary base and money supply rise.
 - The monetary base rises.
 - There is no change in the monetary base or money supply.

◀ [Add Question Here](#)

Question 52 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When a bank makes new loans, the money supply _____ and the monetary base _____.

- Answer**
- ✓ increases; is unchanged
 - increases; increases
 - decreases; is unchanged
 - decreases; decreases

◀ [Add Question Here](#)

Question 53 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The money supply is affected by the behavior of which of the following agents?

- Answer**
- the Office of the Comptroller of the Currency
 - ✓ depositors (i.e., banks' customers)
 - investment banks
 - the FDIC

◀ [Add Question Here](#)

Question 54 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Every time a commercial bank makes a loan:

- Answer**
- the money supply decreases.
 - the monetary base increases.
 - ✓ the money supply increases.
 - checking deposits decrease.

◀ [Add Question Here](#)

Question 55 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When an individual deposits currency into a bank:

- Answer**
- ✓ bank reserves increase.
 - currency in circulation increases.
 - the monetary base increases.
 - All of the answers are correct.

◀ [Add Question Here](#)

Question 56 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose a bank has \$1000 in deposits and chooses to hold \$150 in reserves. According to this information, the bank's reserves–deposit ratio is:

- Answer**
- 0.25.
 - 0.10.
 - 0.15.
 - 0.35.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 57 **Multiple Choice** **0 points**

Question

Using the notation in the text, we can derive the money supply by which of the following equations?

Answer

$$\frac{M}{B} = \frac{C+D}{C+R}$$

$$\frac{M}{B} = \frac{C/D+1}{C/D+R/D}$$

$$M = mB$$

- All of the answers are correct.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 58 **Multiple Choice** **0 points**

Question

In the equation $M = mB$, m is _____ 1 and is called the _____.

- Answer**
- greater than; money multiplier
 - less than; money coefficient
 - equal to; monetary base
 - less than; money multiplier

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 59 **Multiple Choice** **0 points**

Question

Suppose you have the following information: the monetary base is 600, currency in circulation is 400, reserves are 200, deposits are 800, and the money supply is 1,200. What is the money multiplier?

- Answer**
- 4
 - 0.5
 - 2
 - 0.75

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 60 **Multiple Choice** **0 points**

Question

Which of the following increases the money supply?

- Answer**
- a decrease in the monetary base
 - an increase in the currency–deposit ratio
 - an increase in the reserve–deposit ratio
 - None of the answers are correct.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 61 **Multiple Choice** **0 points**

Question

Which of the following increases the money supply?

- Answer**
- an increase in the currency–deposit ratio
 - an increase in deposits
 - an increase in the reserve–deposit ratio
 - an increase in reserves

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 62 **Multiple Choice** **0 points**

Question

Which of the following decreases the money supply?

- Answer**
- an increase in deposits
 - an increase in reserves
 - a decrease in the currency–deposit ratio
 - a decrease in the reserve–deposit ratio

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 63 **Multiple Choice** **0 points**

Question

According to the Board of Governors in August 2008, reserves equaled \$44 billion, currency in circulation equaled \$777 billion, and checking deposits were \$300 billion. What was the monetary base?

- Answer**
- \$821 billion
 - \$1,077 billion
 - \$344 billion
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 64 **Multiple Choice** **0 points**

Question

According to the Board of Governors in August 2008, reserves equaled \$44 billion, currency in circulation equaled \$777 billion, and checking deposits were \$300 billion. What was the M1 money supply?

- Answer**
- \$344 billion
 - \$821 billion
 - ✓ \$1077 billion
 - There is not enough information provided to answer the question.

◀ [Add Question Here](#)

Question 65 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the Board of Governors in August 2008, reserves equaled \$44 billion, currency in circulation equaled \$777 billion, and checking deposits were \$300 billion. The monetary base was _____ and the M1 money supply was _____.

- Answer**
- \$1,077 billion; \$821 billion
 - \$1,077 billion; \$344 billion
 - ✓ \$821 billion; \$1,077 billion
 - \$821 billion; \$821 billion

◀ [Add Question Here](#)

Question 66 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the Board of Governors in August 2008, reserves equaled \$44 billion, currency in circulation equaled \$777 billion, and checking deposits were \$300 billion. What was the money multiplier?

- Answer**
- about 2.59
 - ✓ about 1.31
 - about 0.76
 - about 17.7

◀ [Add Question Here](#)

Question 67 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the Board of Governors in August 2008, the money multiplier was 1.31, reserves were \$44 billion, and currency in circulation was \$777 billion. What was the money supply?

- Answer**
- ✓ \$1,077 billion
 - \$1,019 billion
 - \$625.85 billion
 - There is not enough information provided to answer the question.

◀ [Add Question Here](#)

Question 68 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

During the Great Depression, the money multiplier:

- Answer**
- ✓ fell from 3.8 to 2.4.
 - rose from 3.8 to 2.4.
 - was constant at 2.4.
 - fell from 3.8 to 2.4 then rose back to 3.8.

◀ [Add Question Here](#)

Question 69 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

During the Great Depression, to counter the _____ in the money multiplier the Fed should have _____ to maintain a constant money supply.

- Answer**
- fall; increased the discount rate
 - rise; increased the monetary base
 - rise; decreased the federal funds rate
 - ✓ fall; increased the monetary base

◀ [Add Question Here](#)

Question 70 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The bank panics of the early 1930s caused an increase in both the _____, which pushed the _____ down.

- Answer**
- ✓ currency–deposit and reserve–deposit ratios; money multiplier
 - monetary base and the money supply; interest rate
 - federal funds and discount rate; money market interest rate
 - monetary base and the discount rate; money multiplier

◀ [Add Question Here](#)

Question 71 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Many economists say that, while the _____ in the money supply during the Great Depression was not the deliberate policy of the Fed, they do fault the Fed for *not* recognizing _____.

- Answer**
- rise; the bank panic.
 - rise; the relationship between money and inflation.
 - ✓ drop; the relationship between money and output.
 - drop; the effects of the “dust bowl.”

◀ [Add Question Here](#)

- Question 72 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
According to the Federal Reserve Board of Governors in December 2010, reserves equaled \$1 trillion, currency in circulation equaled \$978 billion, and checking deposits were \$241 billion. What was the money supply?
- Answer**
- \$1,241 billion
 - \$1,978 billion
 - \$1,219 billion
 - There is not enough information provided to answer the question.
- [Add Question Here](#)
- Question 73 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
According to the Federal Reserve Board of Governors in December 2010, reserves equaled \$1 trillion, currency in circulation equaled \$978 billion, and checking deposits were \$241 billion. What was the money multiplier?
- Answer**
- about 2.41
 - about 0.24
 - about 0.62
 - about 4.15
- [Add Question Here](#)
- Question 74 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
The money supply will be ____ than the monetary base when reserves are ____ than deposits.
- Answer**
- smaller; less
 - smaller; greater
 - bigger; less
 - There is not enough information provided to answer the question.
- [Add Question Here](#)
- Question 75 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
During the financial crisis of 2007–2009, the Fed adopted the emergency lending policy of:
- Answer**
- the Term Auction Facility.
 - commercial paper issuance.
 - discount window lending.
 - bank reserve restrictions.
- [Add Question Here](#)
- Question 76 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
During the financial crisis of 2007–2009, the money multiplier was ____ 1.0 because banks ____.
- Answer**
- above; decreased their lending
 - below; increased their lending
 - above; increased their lending
 - below; decreased their lending
- [Add Question Here](#)
- Question 77 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Suppose that the currency–deposit ratio is 0.40 and the reserve–deposit ratio is 0.15. According to this information, the money multiplier is approximately:
- Answer**
- 2.25.
 - 2.54.
 - 1.95.
 - 2.05.
- [Add Question Here](#)
- Question 78 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Suppose the money multiplier is 2.75 and that the monetary base equals \$1,500 billion. According to this information, the money supply is approximately:
- Answer**
- \$4,125.
 - \$1,500.
 - \$545.
 - \$2,750.
- [Add Question Here](#)
- Question 79 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
When banks' reserves are lower than their deposits:
- Answer**
- the money multiplier is less than 1.
 - the reserve–deposit ratio is greater than 1.
 - the monetary base exceeds the money supply.
 - All of the answers are correct.
- [Add Question Here](#)
- Question 80 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

If M stands for the money supply, B stands for the monetary base, D for deposits, and m for the money multiplier, which of the following expressions is correct?

Answer

$$B = m \times M$$

$$M = m \times (B + D)$$

$$M = m / B$$

$$✓ M = m \times B$$

[◀ Add Question Here](#)
Question 81 **Multiple Choice****0 points**
[Modify](#)
[Remove](#)
Question

Suppose that the monetary base increases by \$400 billion. If the money multiplier equals 2.75, the money supply:

Answer

remains unchanged.

decreases by \$400 billion.

✓ increases by \$1,100 billion.

increases by \$400 billion.

[◀ Add Question Here](#)
Question 82 **Multiple Choice****0 points**
[Modify](#)
[Remove](#)
Question

Everything else being the same, if depositors decrease their balances in their checking accounts and increase their currency holdings:

Answer

✓ the money multiplier decreases.

the money multiplier increases.

the monetary base decreases.

the money supply increases.

[◀ Add Question Here](#)
Question 83 **Multiple Choice****0 points**
[Modify](#)
[Remove](#)
Question

During the Great Depression years (1929–1933):

Answer

the money multiplier increased.

the currency–deposit ratio decreased.

the reserve–deposit ratio decreased.

✓ the money supply decreased.

[◀ Add Question Here](#)
Question 84 **Multiple Choice****0 points**
[Modify](#)
[Remove](#)
Question

Which of the following can the Fed use to control the money supply?

Answer

directly change the money multiplier

✓ open-market operations

print money

increase bank capital

[◀ Add Question Here](#)
Question 85 **Multiple Choice****0 points**
[Modify](#)
[Remove](#)
Question

To expand the monetary base, the Fed will:

Answer

conduct open-market sales.

✓ conduct open-market purchases.

raise the discount rate.

lower the required reserve rate.

[◀ Add Question Here](#)
Question 86 **Multiple Choice****0 points**
[Modify](#)
[Remove](#)
Question

If the Fed wishes to keep the money supply constant when the money multiplier increases, it will _____. This is called a _____.

Answer

conduct open-market purchases; defensive open-market operation

✓ conduct open-market sales; defensive open-market operation

lower the discount rate; defensive open-market operation

conduct open-market sales; money market sterilization

[◀ Add Question Here](#)
Question 87 **Multiple Choice****0 points**
[Modify](#)
[Remove](#)
Question

If the Fed wishes to keep the money supply constant when the money multiplier decreases, it will _____. This is called a _____.

Answer

lower the discount rate; defensive open-market operation

✓ conduct open-market purchases; defensive open-market operation

conduct open-market sales; defensive open-market operation

conduct closed market sales; money market sterilization

[◀ Add Question Here](#)
Question 88 **Multiple Choice****0 points**
[Modify](#)
[Remove](#)

Question

_____ is(are) the monetary tool used most by the Fed.

Answer

- Changing the reserve rate
- Open-market operations
- Changing the discount rate
- Offering larger discount loans

[◀ Add Question Here](#)

Question 89

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Because the _____ rate is higher than the _____ rate, there is an incentive for banks to borrow from _____ rather than from the Fed.

Answer

- discount; federal funds; other banks
- federal funds; prime interest; other banks
- repo interest; discount; depositors
- inflation; discount; Board of Governors

[◀ Add Question Here](#)

Question 90

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Direct loans made to member banks by the Fed are called:

Answer

- federal fund loans.
- the Term Auction Facility loans.
- discount loans.
- repo loans.

[◀ Add Question Here](#)

Question 91

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

If the Federal Reserve raises the _____, the amount of discount loans _____ and the money supply _____.

Answer

- discount rate; falls; falls
- discount rate; rises; rises
- federal funds rate; falls; falls
- reserve rate; rises; rises

[◀ Add Question Here](#)

Question 92

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

A rise in the _____ rate encourages banks to borrow in the _____ market.

Answer

- federal funds; money
- discount; federal funds
- discount; Term Auction Facility
- inflation; money

[◀ Add Question Here](#)

Question 93

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

To raise the monetary base, the Fed would prefer to use _____ rather than changing the _____.

Answer

- discount loans; money multiplier
- Term Auction Facility loans; federal funds rate
- changes in the reserve rate; money supply
- open-market operations; discount rate

[◀ Add Question Here](#)

Question 94

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Discount loans are generally:

Answer

- made only in emergency circumstances.
- made on a daily basis under normal circumstances.
- required by the rules of the Federal Reserve.
- made only to investment banks.

[◀ Add Question Here](#)

Question 95

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Term Auction Facility loans are provided as a response to:

Answer

- the desire by households to have access to federal funds.
- demand for low-interest loans from member banks.
- uncertainty in financial markets.
- federal government liquidity requirements.

[◀ Add Question Here](#)

Question 96

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Term Auction Facility loans were introduced in _____ in reaction to unease in financial markets, which started with _____.

- Answer**
- 1930; a bank panic
 - 2007; the subprime mortgage crisis
 - 1990; the collapse of the savings and loan industry.
 - 2001; the September 11 attacks.

[◀ Add Question Here](#)

Question 97 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Term Auction Facility loans were offered to banks that were _____, which is often interpreted as _____.

- Answer** concerned about borrowing from the discount window; a sign of weakness
- unable to borrow at the discount window; a sign of low liquidity
 - insolvent; a sign of a bank close in the near future
 - seeking low-interest loans; bank health.

[◀ Add Question Here](#)

Question 98 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The regulation that stipulates the minimum level for a bank's reserve–deposit ratio is called the:

- Answer**
- vault cash stipulation, or VCS.
 - minimum reserve ratio.
 - fractional reserve prerequisite.
 - reserve requirement.

[◀ Add Question Here](#)

Question 99 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If a bank has \$1,000 in checking deposits, \$10,000 in nontransaction deposits, and \$10,000 in eurocurrency deposits, and if the reserve requirement is 10 percent, the bank must hold _____ in reserve.

- Answer**
- \$1000
 - \$1100
 - \$100
 - \$2100

[◀ Add Question Here](#)

Question 100 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If the Fed increases the reserve requirement, the monetary base _____ and the money supply _____.

- Answer** stays the same; falls
- rises; falls
 - falls; falls
 - falls; stays the same

[◀ Add Question Here](#)

Question 101 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The _____ gave the Fed the power to set bank reserve requirements.

- Answer** Banking Act of 1933
- Glass-Steagall Act
 - President of the United States, Franklin Roosevelt,
 - Federal Reserve Act of 1913

[◀ Add Question Here](#)

Question 102 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The difference between a bank's actual reserves and required reserves is called _____ reserves.

- Answer**
- safety
 - surplus
 - excess
 - risk-adjusted

[◀ Add Question Here](#)

Question 103 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The Fed was blamed for the sharp recession in 1938 because it:

- Answer**
- increased the discount rate.
 - increased the reserve requirement.
 - reduced the monetary base.
 - printed too much money.

[◀ Add Question Here](#)

Question 104 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In the aftermath of the downturn in the early 1930s, private banks _____; between 1936 and 1937 the Fed raised the _____, which _____ the Great Depression.

- Answer** increased their holdings of risky securities; risk assessment parameters; shortened
reduced their holdings of excess reserves; discount rate; shortened
- ✓ increased their holdings of excess reserves; reserve requirements; prolonged
reduced their excess reserves; reserve requirements; prolonged

[◀ Add Question Here](#)

Question 105 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The reason(s) for banks to voluntarily increase their excess reserves is(are) the:

- Answer** use of sweep programs.
growth of ATMs.
reduction of reserve requirements.
- ✓ All of the answers explain the reason.

[◀ Add Question Here](#)

Question 106 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

_____ has eliminated reserve requirements.

- Answer** ✓ Canada
France
China
The United States

[◀ Add Question Here](#)

Question 107 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

During financial crises, the Fed modifies its policies by:

- Answer** ✓ increasing its discount lending.
encouraging banks to increase their lending to one another.
reducing the currency–deposit ratio.
increasing the required–reserve ratio.

[◀ Add Question Here](#)

Question 108 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

To combat _____ problems, the Fed started _____ during the 2008 financial crisis.

- Answer** solvency; closing down commercial banks
✓ liquidity; paying interest on reserves
liquidity; reducing reserve requirements
inflation; reducing the money supply

[◀ Add Question Here](#)

Question 109 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The Fed largely stopped setting reserve requirements as a way to affect the money supply because:

- Answer** the widespread use of ATMs made reserves less important than before.
the introduction of sweep programs increased required reserves automatically.
✓ the reserve requirement was not binding because bank reserves routinely exceeded the required amount.
banks failed to increase reserves to meet the requirement, so the policy was ineffective

[◀ Add Question Here](#)

Question 110 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Assuming that no other elements of the money multiplier change, when the Fed increases the interest rate it pays on reserves, the reserve–deposit ratio _____ and the money supply _____.

- Answer** ✓ increases; increases
increases; decreases
decreases; decreases
decreases; increases

[◀ Add Question Here](#)

Question 111 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following include the Fed's tools for controlling the money supply?

- Answer** changes in the number of Federal Reserve regional banks
✓ open-market operations
changes in the number of voting members of the FOMC
the number of traveler's checks the Federal Reserve allows banks to process

[◀ Add Question Here](#)

Question 112 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following is the preferred tool used by the Fed to control the money supply?

- Answer**
- changes in the discount rate
 - open-market operations
 - changes in reserve requirements
 - changes in interest paid on reserves

[◀ Add Question Here](#)

Question 113 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When the Fed lowers the discount rate:

- Answer**
- discount loans increase.
 - the monetary base increases.
 - the money supply increases.
 - All of these occur.

[◀ Add Question Here](#)

Question 114 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following statements about the Fed's discount policy is true?

- Answer**
- The Fed sets the discount rate below the federal funds rate target.
 - Changes in the discount rate are the Fed's preferred tool to control the money supply.
 - The Fed increases its lending to banks usually during financial crises.
 - The U.S. Treasury determines the discount rate, while the Fed makes the discount loans to commercial banks.

[◀ Add Question Here](#)

Question 115 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When the Fed increases the required reserves ratio:

- Answer**
- the reserves–deposit ratio increase.
 - the money multiplier increases.
 - the money supply increases.
 - All the answers are correct.

[◀ Add Question Here](#)

Question 116 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When the Fed increases the interest rate, it pays banks on their reserves and:

- Answer**
- the money supply increases.
 - the money supply remains unchanged.
 - the reserve–deposit ratio increases.
 - the money multiplier increases.

[◀ Add Question Here](#)

Question 117 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In the liquidity preference theory of money, the Fed can increase the nominal interest rate by:

- Answer**
- increasing the money supply.
 - increasing money demand.
 - reducing the money supply.
 - reducing money demand.

[◀ Add Question Here](#)

Question 118 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Using the liquidity preference model of the money market, if the Fed targets _____ and the economy goes into a slump, the Fed will _____ the money supply and _____.

- Answer**
- interest rates; decrease; inflation will rise
 - money; increase; the nominal interest rate will fall
 - money; decrease; the nominal interest rate will fall
 - interest rates; decrease; the nominal interest rate will rise

[◀ Add Question Here](#)

Question 119 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Using the liquidity preference model of the money market, if the Fed targets _____ and the economy goes into an expansion, the Fed will _____ the nominal interest rate and _____.

- Answer**
- interest rates; increase; the money supply will fall
 - interest rates; increase; inflation will rise
 - money; decrease; the nominal interest rate will fall
 - money; increase; the nominal interest rate will fall

[◀ Add Question Here](#)

Question 120 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If the Fed targets money supply, an increase in money demand will:

- Answer** increase the interest rate as money supply adjusts.
 reduce the nominal interest rate because money supply will rise more than the change in demand.
 increase the interest rate because the money supply is fixed.
 increase the money supply.

[Add Question Here](#)

Question 121 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If the Fed targets the interest rate, an increase in money demand will:

- Answer** prompt the Fed to decrease money supply to maintain the interest rate.
 prompt the Fed to increase money supply to maintain the interest rate.
 allow the Fed to keep the money supply fixed to maintain the target.
 prompt the Fed to decrease money supply to reduce the interest rate.

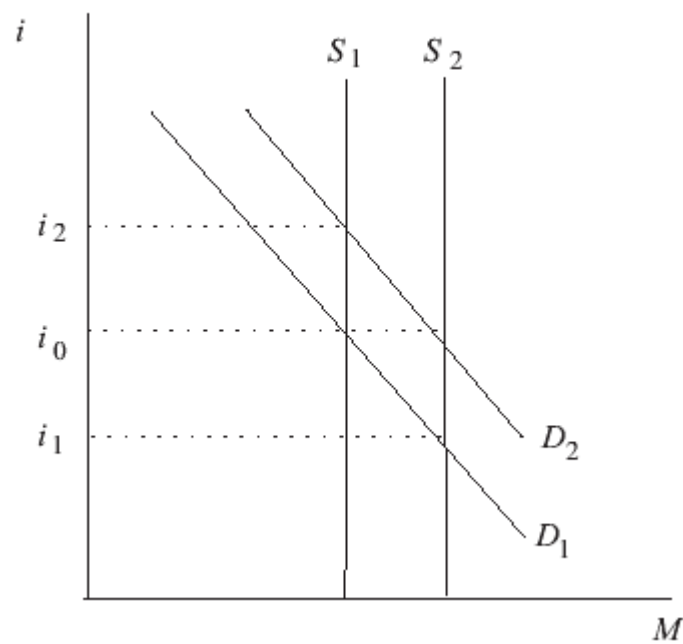
[Add Question Here](#)

Question 122 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Figure 11.1: The Money Market



Reference: Ref 11-1

(Figure 11.1: The Money Market) If the Fed targets money and there is an increase in money demand the Fed would _____ and the interest rate would _____.

- Answer** leave the money supply at S_1 ; $i_0 \rightarrow i_2$
 increase money supply from S_1 to S_2 ; stay at i_0
 leave the money supply at S_1 ; stay at i_0
 reduce money supply from S_2 to S_1 ; stay at i_0

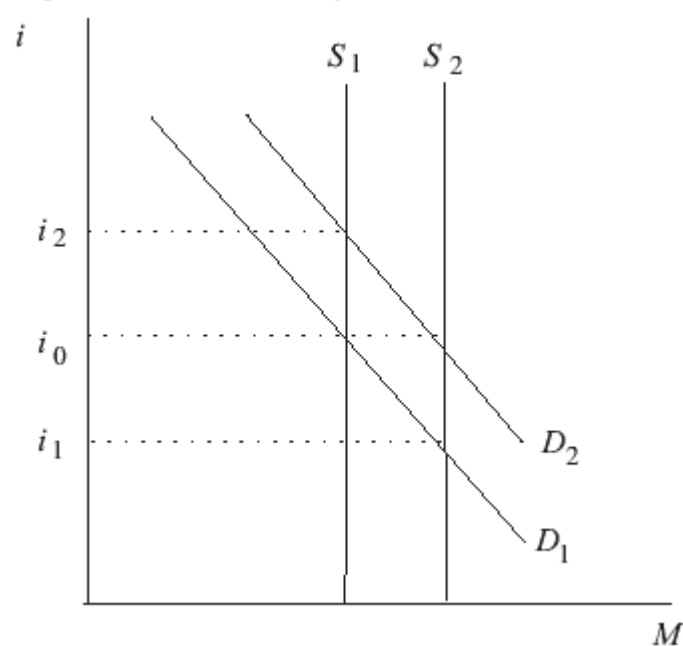
[Add Question Here](#)

Question 123 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

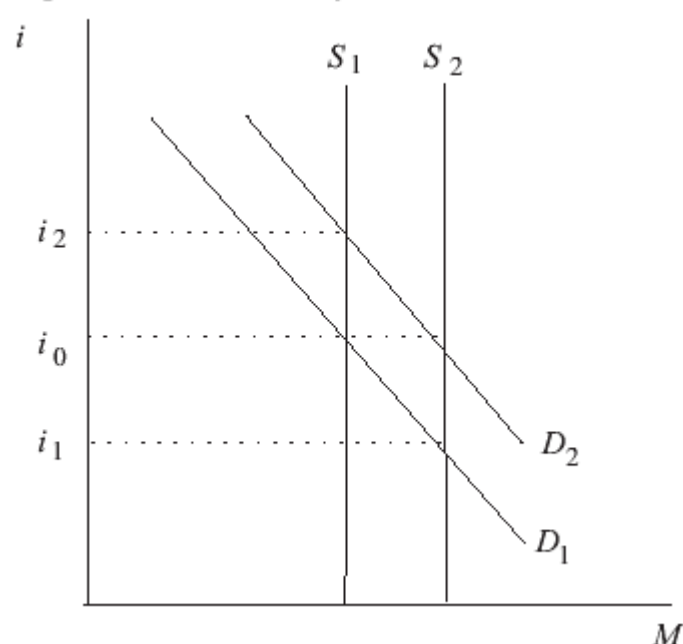
Figure 11.1: The Money Market



Reference: Ref 11-1

(Figure 11.1: The Money Market) If the Fed targets nominal interest rates and there is a decrease in money demand the Fed would _____ and the interest rate would _____.

- Answer** leave the money supply at S_1 ; $i_0 \rightarrow i_2$
 reduce money supply from S_2 to S_1 ; stay at i_0
 increase money supply from S_1 to S_2 ; stay at i_0
 leave the money supply at S_1 ; stay at i_0

[Add Question Here](#)Question 124 **Multiple Choice****0 points**[Modify](#) [Remove](#)**Question****Figure 11.1: The Money Market**

Reference: Ref 11-1

(Figure 11.1: The Money Market) Between 1979 and 1982 the Fed targeted money. In 1982, the U.S. economy entered a severe recession. Using the liquidity-preference model in Figure 11.1, what do you anticipate happened to the nominal interest rate, i ?

Answer ✓ In a recession, incomes fall; with a fall in income comes a decline in money demand, $D_2 \rightarrow D_1$. If the Fed targeted money, money supply would stay constant at S_2 and the interest rate would fall from i_0 to i_1 .

In a recession, incomes fall; with a fall in income comes an increase in money supply, $S_1 \rightarrow S_2$. If the Fed targeted money, they would intervene in money markets to reduce the money supply back to S_1 and the interest rate would stay constant.

In a recession, incomes fall; with a fall in income comes a decrease in money supply, $S_2 \rightarrow S_1$. If the Fed targeted money, they would intervene in money markets to reduce the money supply back to S_2 and the interest rate would stay constant.

In a recession, wealth rises, increasing the demand for money from $D_1 \rightarrow D_2$. If the Fed targeted money, that would reduce money supply back to S_2 and the interest rate would fall.

[Add Question Here](#)Question 125 **Multiple Choice****0 points**[Modify](#) [Remove](#)**Question**

The reason most economists believe the Fed targets _____ is because of constant shifts in _____ caused by changes in transaction technologies.

- Answer**
- interest rates; the money supply
 - the money supply; money demand
 - ✓ interest rates; money demand
 - the money supply; interest rates

[Add Question Here](#)Question 126 **Multiple Choice****0 points**[Modify](#) [Remove](#)**Question**

The reason most economists believe the Fed targets _____ is because constant shifts in money demand cause _____.

- Answer**
- interest rates; the money supply to fluctuate
 - ✓ interest rates; interest rates to fluctuate
 - the money supply; the purchasing power of money to fall
 - money demand; interest rates to fluctuate

[Add Question Here](#)Question 127 **Multiple Choice****0 points**[Modify](#) [Remove](#)**Question**

Most economists believe that if the Fed targets money supply, constant shifts in money demand would cause _____, which in turn _____.

- Answer**
- interest rates to fluctuate; stabilizes output
 - inflation to rise; increases unemployment
 - income to rise; reduces demand expenditures
 - ✓ interest rates to fluctuate; destabilizes output

[Add Question Here](#)Question 128 **Multiple Choice****0 points**[Modify](#) [Remove](#)**Question**

Between 1979 and 1982, the Fed experimented with:

- Answer** ✓
- money targeting.
 - interest rate targeting.
 - credit rationing.
 - a 50 percent reserve requirement.

[Add Question Here](#)Question 129 **Multiple Choice****0 points**[Modify](#) [Remove](#)

Question

The Fed was criticized for ____ in the early 1980s because the policy led to ____.

- Answer**
- increasing reserve requirements; higher interest rates
 - setting an interest rate target; unstable money supply
 - ✓ setting a monetary target; unstable interest rates
 - increasing the money supply, high inflation

◀ [Add Question Here](#)

Question 130 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose the Fed targets the interest rate. If the demand for money curve shifts to the left,

- Answer**
- the Fed would increase the money supply to keep the interest rate fixed.
 - ✓ the Fed would decrease the money supply to keep the interest rate fixed.
 - the interest rate increases.
 - the money supply will remain constant.

◀ [Add Question Here](#)

Question 131 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The federal funds rate is the:

- Answer**
- percentage of total deposits that must be held as a federal fund.
 - interest rate that the Fed charges member commercial banks.
 - ✓ interest rate that banks charge each other for overnight loans.
 - the percentage of total loans a bank has that are made to the Fed.

◀ [Add Question Here](#)

Question 132 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The federal funds rate is:

- Answer** ✓
- a market interest rate for federal funds.
 - an interest rate that is set by the Fed.
 - the percentage of federal funds held in a bank's vault.
 - the rate of M1 money growth.

◀ [Add Question Here](#)

Question 133 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The FOMC has _____ members: the _____ members of the Board of Governors and the presidents of _____ of the Federal Reserve Banks.

- Answer**
- ten; seven; three
 - ✓ twelve; seven; five
 - three; two; one
 - seven; seven; zero

◀ [Add Question Here](#)

Question 134 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The president of the Federal Reserve Bank of _____ always sits on the FOMC.

- Answer**
- Philadelphia
 - Washington, DC
 - Chicago
 - ✓ New York

◀ [Add Question Here](#)

Question 135 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Open-market operations are conducted _____ at the open-market desk at the _____.

- Answer**
- monthly; Bank of America
 - weekly; FOMC headquarters in Washington, DC
 - ✓ daily; Federal Reserve Bank of New York.
 - daily; Treasury Department

◀ [Add Question Here](#)

Question 136 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

To maintain the target federal funds rate, the Fed conducts _____ to ensure that the supply of _____ equals demand.

- Answer** ✓
- open-market operations; overnight loans
 - discount loans; deposits
 - discount loans; reserves
 - sterilized intervention; dollars

◀ [Add Question Here](#)

Question 137 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

To ward off the adverse effects of the financial crisis of 2008, the Federal Reserve used open-market operations to ____ bonds, which ____ reserves and caused the Federal funds rate to ____.

Answer

- sell; reduced; increase
- sell; increased; decrease
- buy; reduced; increase
- ✓ buy; increased; fall

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 138 **Multiple Choice**

0 points

Question

Currently the Fed targets the:

- Answer** ✓ federal funds rate.
 discount rate.
 prime rate.
 corporate AAA rate.

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 139 **Multiple Choice**

0 points

Question

The _____ is a market-determined rate, and it is a _____ rate.

- Answer** federal funds rate; long-term
 discount rate; very short-term
 ✓ federal funds rate; very short-term
 discount rate; long-term

◀ [Add Question Here](#)

[Modify](#) [Remove](#)

Question 140 **Multiple Choice**

0 points

Question

The federal funds rate target is determined by the:

- Answer** Office of the Comptroller of the Currency.
 ✓ The Federal Open-Market Committee.
 The Board of Governors of the Federal Reserve System.
 The Federal Deposit Insurance Corporation.

◀ [Add Question Here](#)

[OK](#)