


Pool Canvas

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Name TestBanks Chapter 14 Multiple-Choice Questions
Description Question pool for TestBanks Chapter 14 Multiple-Choice Questions
Instructions

[Modify](#)

[◀ Add Question Here](#)

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

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

Question

Hyperinflation is defined as inflation of:

- Answer**
- 50 percent per year or more.
 - 50 percent per month or more.
 - 150 percent per month or more.
 - 1000 percent per year or more.

[◀ Add Question Here](#)

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

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

Question

The highest rate of inflation to date was recorded in:

- Answer**
- Germany.
 - Bolivia.
 - Japan.
 - Serbia.

[◀ Add Question Here](#)

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

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

Question

Deflation is a period of _____ inflation.

- Answer**
- sustained negative
 - slowing
 - steady and low
 - zero

[◀ Add Question Here](#)

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

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

Question

In the long run, inflation is determined by the:

- Answer**
- growth rate of money.
 - level of unemployment.
 - natural rate of output.
 - Treasury Secretary.

[◀ Add Question Here](#)

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

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

Question

Monetary policy's impact on _____ is _____ in the long run.

- Answer**
- real variables; positive
 - nominal variables; neutral
 - real variables; neutral
 - unemployment; negative

[◀ Add Question Here](#)

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

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

Question

Velocity is defined as:

- Answer**
- the speed with which an asset can be made liquid.
 - how quickly money moves through an economy.
 - the acceleration of inflation.
 - the Fed's response to an expenditure shock.

[◀ Add Question Here](#)

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

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

Question

Velocity is written as:

- Answer**
- $$V = \frac{\text{Real GDP}}{M}$$
- $$V = \frac{M}{\text{Total spending}}$$

$$V = \frac{\text{Total spending}}{M}$$

$$V = \frac{\text{Nominal GDP}}{\text{Real GDP}}$$

[Add Question Here](#)

Question 8 Multiple Choice 0 points

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

Velocity is written as:

Answer

$$V = \frac{Y}{M}$$

$$V = \frac{M}{PY}$$

$$V = \frac{PY}{M}$$

$$V = \frac{\text{Nominal GDP}}{\text{Real GDP}}$$

[Add Question Here](#)

Question 9 Multiple Choice 0 points

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

In the equation $V = \frac{PY}{M}$, V is velocity, PY is _____, and M is _____.

Answer

real GDP; money demand

total spending or nominal GDP; money supply

nominal GDP; total spending

real GDP; a monetary policy variable

[Add Question Here](#)

Question 10 Multiple Choice 0 points

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

The equation $MV = PY$ is called the:

Answer

liquidity constraint.

quantity equation of money.

monetary policy equation.

monetary equilibrium equation.

[Add Question Here](#)

Question 11 Multiple Choice 0 points

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

If the quantity equation of money holds and the money market is in equilibrium:

factors that influence money demand also affect velocity.

there is no relationship between interest rates and velocity.

monetary policy is completely ineffective.

more ATMs decreases velocity.

[Add Question Here](#)

Question 12 Multiple Choice 0 points

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

We can use the _____ to derive the rate of inflation, which is given as _____.

Answer

quantity equation of money; $\% \text{ change in } P = \% \text{ change in } Y - \% \text{ change in } M - \% \text{ change in } V$

Phillips curve; $\% \text{ change in } P = \alpha(r - r^*)$

money market equilibrium; $\% \text{ change in } P = \% \text{ change in } Y$

quantity equation of money; $\% \text{ change in } P = \% \text{ change in } M + \% \text{ change in } V - \% \text{ change in } Y$

[Add Question Here](#)

Question 13 Multiple Choice 0 points

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

From the quantity equation of money, we can derive inflation as _____. In the long run, the two variables outside the influence of the Fed are _____.

Answer

$\pi = \% \text{ change in } M + \% \text{ change in } V - \% \text{ change in } Y$; inflation and output growth

$\pi = \% \text{ change in } Y - \% \text{ change in } M - \% \text{ change in } V$; output and velocity growth

$\pi = \% \text{ change in } M + \% \text{ change in } V - \% \text{ change in } Y$; output and velocity growth

$\pi = \% \text{ change in } M$; there are no variables outside the Fed's control in the long run

[Add Question Here](#)

Question 14 Multiple Choice 0 points

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

According to the quantity equation of money, long-run inflation will be *reduced* if:

Answer

the money supply growth increases.

the output growth rate increases.

velocity growth is constant.

None of the answers are correct.

[Add Question Here](#)

Question 15 **Multiple Choice** **0 points**

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

Question

Use the quantity equation to answer the following: Suppose the central bank wants to maintain a long-run inflation rate of 3 percent. If velocity growth is 1 percent and output is growing at 4 percent, what money growth rate should the central bank choose?

- Answer**
- 5 percent
 - 1 percent
 - 6 percent
 - 3 percent

[Add Question Here](#)

Question 16 **Multiple Choice** **0 points**

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

Question

Use the quantity equation to answer the following: If the central bank maintains money growth at 2 percent, velocity growth is 1 percent, and output is growing at 4 percent, the rate of inflation is _____; this is called _____.

- Answer**
- 1 percent; deflation
 - 5 percent; hyperinflation
 - 1 percent; disinflation
 - 3 percent; inflation

[Add Question Here](#)

Question 17 **Multiple Choice** **0 points**

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

Question

According to the quantity equation of money, in the long run there is _____ relationship between money growth rate and inflation.

- Answer**
- no
 - a less than a one-for-one
 - a greater than a one-for-one
 - a one-for-one

[Add Question Here](#)

Question 18 **Multiple Choice** **0 points**

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

Question

Long-run changes in velocity are determined by:

- Answer**
- the increased use of ATMs.
 - changes in transaction technologies.
 - the increased use of online banking.
 - All of the answers are correct.

[Add Question Here](#)

Question 19 **Multiple Choice** **0 points**

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

Question

The phenomenon that, in the long run, monetary policy has *no* impact on economic growth is called:

- Answer**
- long-run neutrality.
 - the ineffectiveness of money principle.
 - the quasi-Phillips relationship.
 - money illusion.

[Add Question Here](#)

Question 20 **Multiple Choice** **0 points**

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

Question

In the long run, differences in the inflation rate are explained by differences in _____ across countries.

- Answer**
- output growth
 - changes in velocity
 - money growth rates
 - All of the answers are correct.

[Add Question Here](#)

Question 21 **Multiple Choice** **0 points**

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

Question

In the long run, the majority of differences in inflation rates across countries is explained by _____, particularly in high inflation countries.

- Answer**
- unemployment rates
 - money growth rates
 - output growth
 - changes in velocity

[Add Question Here](#)

Question 22 **Multiple Choice** **0 points**

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

Question

The link between the quantity equation of money and inflation is:

- Answer**
- Okun's Law.
 - the rate of change of velocity.
 - the Phillips curve.
 - the difference between potential and actual real GDP.

[Add Question Here](#)Question 23 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**Which of the following *best* summarizes the relationship between money and inflation?**Answer**

- % change $M \uparrow \rightarrow Y \uparrow \rightarrow \pi \uparrow$
- % change $M \uparrow \rightarrow$ % change $V \uparrow \rightarrow \pi \uparrow$
- % change $M \uparrow \rightarrow r \downarrow \rightarrow \pi \uparrow$
- % change $M \uparrow \rightarrow i \downarrow \rightarrow r \downarrow \rightarrow Y \uparrow \rightarrow \pi \uparrow$

[Add Question Here](#)Question 24 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

According to the quantity theory of money, if banks open additional ATMs, then money demand _____ and velocity _____.

Answer

- falls; rises
- falls; falls
- rises; rises
- rises; falls

[Add Question Here](#)Question 25 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Use the quantity theory of money to answer the following questions. If output is falling at 1 percent, money is growing at 4 percent, and velocity is constant, then the rate of inflation is _____; this is called _____.

Answer

- 1 percent; deflation
- 3 percent; inflation
- 5 percent; inflation
- 0; stagnation

[Add Question Here](#)Question 26 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Using the quantity theory of money, suppose the Fed is concerned that the rise in bank closures will cause people to increase the amount of cash they carry around. Assuming constant economic growth, to keep inflation constant, the Fed should _____ the _____ to offset the _____ in _____.

Answer

- decrease; money supply; decrease; velocity
- increase; money supply; decrease; velocity
- decrease; money supply; increase; velocity
- increase; output; decrease; velocity

[Add Question Here](#)Question 27 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Economist _____ said, "Money is always and everywhere a monetary phenomenon."

Answer

- Ben Bernanke
- John Maynard Keynes
- Milton Friedman
- Robert Barro

[Add Question Here](#)Question 28 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

According to the Phillips curve, inflation is caused by _____ in the short run, whereas according to the quantity theory of money, inflation is caused by _____ in the long run.

Answer

- output growth; output growth
- positive supply shocks; decreased velocity
- adverse demand shocks; increased money growth
- increased aggregate expenditure; increased money growth.

[Add Question Here](#)Question 29 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

In the short run, inflation is largely determined by _____ whereas in the long run, inflation is largely determined by _____.

Answer

- increases in the federal funds rate; decreases in the federal funds rate
- adverse demand shocks; adverse supply shocks
- surprise interest rate cuts; anticipated interest rate cuts
- the slope of the Phillips curve; growth in money supply

[Add Question Here](#)Question 30 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Various expenditure and supply shocks cause short-run fluctuations in the inflation rate, but average inflation over a decade or more is closely tied to the growth rate of:

- Answer**
- planned investment.
 - technological innovation.
 - the unemployment rate.
 - the money supply.

[Add Question Here](#)

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

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

Question

Suppose total spending is \$16,000 billion and the money supply is \$2,000 billion. According to this information, velocity is:

- Answer**
- 0.25 percent.
 - 8.
 - 4.
 - 80 percent.

[Add Question Here](#)

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

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

Question

Suppose velocity is 6 and total spending is \$12,000 billion. According to this information, the money supply equals:

- Answer**
- \$36,000 billion.
 - \$72,000 billion.
 - \$2,000 billion.
 - \$1,000 billion.

[Add Question Here](#)

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

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

Question

Suppose velocity equals 8 and the money supply is \$1,500 billion. According to this information, total spending equals:

- Answer**
- \$12,000 billion.
 - \$6,000 billion.
 - \$60,000 billion.
 - \$1,500 billion.

[Add Question Here](#)

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

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

Question

Suppose the money supply is \$1,400 billion, real GDP is \$980 billion, and the price level is 10. According to this information, nominal GDP is _____ and velocity is _____.

- Answer**
- \$9,800 billion; 7
 - \$98 billion; 5
 - \$9,800 billion; 5
 - \$98 billion; 7

[Add Question Here](#)

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

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

Question

Suppose that velocity is 10 and that nominal GDP is \$8,000 billion. If the price level is 16, then the money supply equals _____ and real GDP is _____.

- Answer**
- \$800 billion; \$32 billion
 - \$800 billion; \$500 billion
 - \$80 billion; \$32,000 billion
 - \$80 billion; \$500 billion

[Add Question Here](#)

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

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

Question

According to the quantity equation of money, total spending in the economy equals:

- Answer**
- the money supply times the federal funds rate.
 - the money supply times the discount rate.
 - the money supply times the velocity of money.
 - the money supply plus the monetary base.

[Add Question Here](#)

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

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

Question

Assume the market for money is in equilibrium and that nominal GDP is constant. A(n) _____ in money demand _____ velocity.

- Answer**
- increase; does not affect
 - increase; decreases
 - increase; increases
 - decrease; decreases

[Add Question Here](#)

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

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

Question

In the long run, the central bank can affect which of the following to determine the inflation rate?

- Answer**
- the growth rate of real output
 - the growth rate of velocity
 - ✓ the growth rate of the money supply
 - the growth rate of technological change

◀ [Add Question Here](#)

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

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

Question

According to data about inflation and the growth rate of money across countries for a 10-year period:

- Answer**
- countries with high money growth rates are the ones with the lowest inflation rates.
 - there is no link between inflation and the growth rate of money.
 - ✓ money growth rates explain most of the difference in inflation rates across countries.
 - there is an inverse relationship between money growth rates and inflation across countries.

◀ [Add Question Here](#)

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

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

Question

Under a gold standard, the main determinant for money growth was:

- Answer**
- the amount of jewelry melted down.
 - the price of gold in international markets.
 - ✓ mining technology.
 - the total world supply of gold.

◀ [Add Question Here](#)

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

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

Question

During a deflation, the ex post real interest rate is _____ the ex ante real interest rate.

- Answer** ✓
- greater than
 - less than
 - equal to
 - There is not enough information provided to answer the question.

◀ [Add Question Here](#)

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

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

Question

When the ex post real interest rate is greater the ex ante real interest rate:

- Answer** ✓
- debtors pay back more than they expected when the loans were made.
 - debtors pay back less than they expected when the loans were made.
 - lenders are repaid less than they expected when the loans were made.
 - There is not enough information provided to answer the question.

◀ [Add Question Here](#)

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

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

Question

In times of deflation, _____ and the ex ante real interest rate is _____ the ex post real interest rate.

- Answer**
- $\pi < \pi^e$; greater than
 - ✓ $\pi < \pi^e$; less than
 - $\pi > \pi^e$; greater than
 - $\pi = \pi^e$; equal to

◀ [Add Question Here](#)

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

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

Question

During the 1880s and 1890s, farmers and their political allies wanted to _____ in order to _____ to reduce farmer debt burdens.

- Answer**
- generate deflation; reduce the ex ante real interest rate
 - adopt a gold standard; keep inflation at zero
 - ✓ generate inflation; reduce the ex post real interest rate
 - issue agricultural bonds; pay off loans

◀ [Add Question Here](#)

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

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

Question

Bimetallism is defined as a system in which:

- Answer**
- gold is used as a reserve and silver is used to make coins.
 - gold is the reserve currency and silver is used in day-to-day transactions.
 - ✓ money is backed by gold and silver.
 - gold is used to conduct foreign exchange transactions, but not to control the money supply.

◀ [Add Question Here](#)

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

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

Question

With commodity money, the money supply is determined by:

- Answer**
- the value of the commodity in general circulation.
 - the global supply of all commodities.
 - the central bank.
 - ✓ how much of the commodity is produced.

[◀ Add Question Here](#)

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

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

Question

In the 1880s and 1890s, there was a debate over whether or not to adopt bimetallism, which is defined as using _____. However, since there was a silver production boom going on during this period, had bimetallism been adopted, the growth of silver would have _____.

- Answer**
- ✓ both gold and silver as money; increased inflation
 - both gold and silver as money; raised unemployment
 - silver in day-to-day transactions and gold as a reserve commodity; resulted in disinflation
 - gold is used to conduct foreign exchange transactions; caused a recession

[◀ Add Question Here](#)

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

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

Question

In the 1896 election, Democrat candidate William Jennings Bryan's primary campaign issue was _____, in other words, _____.

- Answer**
- “Liberate Silver”; using silver as commodity money
 - ✓ “Free Silver”; bimetallism
 - “Free Trade”; allowing more gold imports to increase the money supply
 - “Free Trade”; end high tariffs on commodity imports

[◀ Add Question Here](#)

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

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

Question

The current U.S. dollar is:

- Answer**
- commodity money.
 - ✓ fiat money.
 - intrinsically valuable.
 - backed by silver.

[◀ Add Question Here](#)

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

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

Question

With fiat money, money supply is controlled by:

- Answer**
- ✓ the central bank.
 - discoveries of new reserves of gold.
 - the central government.
 - commercial banks who lend money.

[◀ Add Question Here](#)

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

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

Question

Central banks often adopt _____ to keep _____.

- Answer**
- high money growth rates; inflation low
 - a zero money growth rate; unemployment low
 - ✓ low money growth rates; inflation low
 - low money growth rates; interest rates low

[◀ Add Question Here](#)

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

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

Question

A key implication of the Phillips curve is that central banks may have

- Answer**
- a difficult time increasing short-run output while maintaining low inflation.
 - a difficult time reducing unemployment while maintaining low inflation.
 - to accept higher inflation if they increase short-run output.
 - ✓ All of the answers are correct.

[◀ Add Question Here](#)

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

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

Question

A key implication of the Phillips curve is that central banks may have:

- Answer**
- ✓ a difficult time increasing short-run output while maintaining low inflation.
 - to accept lower unemployment while maintaining low inflation.
 - to accept higher inflation if they decrease short-run output.
 - All of the answers are correct.

[◀ Add Question Here](#)

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

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

Question

When the central bank accommodates a negative supply shock, it _____; however, its main goal is to _____.

- Answer** allows unemployment to rise; keep output from falling below its potential
 allows inflation to rise; keep output rising too far above potential, which may cause an inflation spiral
 allows inflation to rise; keep output from falling below its potential
 has no control over inflation; reduce unemployment

[◀ Add Question Here](#)

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

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

Question

A contributing factor to high inflation rates in the 1970s was that after oil prices rose, a(n) _____, and the Fed _____ by increasing money supply in an effort to _____. However, this increased inflation.

- Answer** adverse demand shock occurred; conducted contractionary monetary policy; prevent an inflationary spiral
 positive demand shock occurred; accommodated the shock; keep unemployment high
 adverse supply shock occurred; accommodated the shock; prevent a recession
 positive supply shock occurred; conducted expansionary monetary policy; reduce inflation

[◀ Add Question Here](#)

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

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

Question

In the late 1970s, policymakers accommodated a(n) _____ allowing inflation to rise. In 1979, Chairman of the Fed Paul Volcker decided to _____ and accepted _____.

- Answer** adverse supply shock; increase money growth; higher rates of inflation to reduce unemployment
 adverse supply shock; reduce money growth; a deep recession
 positive demand shock; decrease taxes; a deep recession
 negative demand shock; reduce money growth; a lower unemployment rate

[◀ Add Question Here](#)

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

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

Question

The hyperinflation in Serbia was spurred on by:

- Answer** new infrastructure expenditures.
 high energy prices.
 higher than usual remittances from Serbians living outside Serbia.
 the war in Bosnia.

[◀ Add Question Here](#)

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

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

Question

The act of the central government borrowing by selling large numbers of bonds directly to the central bank is euphemistically called:

- Answer** "printing money."
 "deficit spending."
 "the time value of money."
 "deflation finance."

[◀ Add Question Here](#)

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

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

Question

The catalyst for the German hyperinflation in 1923 was:

- Answer** high global energy prices accompanied by dwindling supplies of wheat.
 the high war reparations paid to the victors of World War I.
 increasing global interest rates.
 political unrest and the rise of global communism.

[◀ Add Question Here](#)

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

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

Question

In October 1923, German monthly inflation rates hit 30,000 percent, which implies prices double every:

- Answer** four days.
 day.
 week.
 four hours.

[◀ Add Question Here](#)

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

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

Question

High inflation in Latin America in the 1980s is blamed on:

- Answer** rising government deficit spending.
 falling tax revenues.
 increased programs to help the poor.
 All of the answers are correct.

[◀ Add Question Here](#)

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

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

Question

Which of the following explains why worldwide inflation rates have fallen over the past few decades.

- I. an understanding of the long-run neutrality of money
 II. more conservative fiscal policy worldwide

III. a growing distaste for inflation

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

[◀ Add Question Here](#)

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

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

Question

All regions of the world have experienced a fall in inflation *except*:

- Answer**
- Latin America.
 - Africa.
 - Central and Eastern Europe.
 - ✓ None of the answers is correct.

[◀ Add Question Here](#)

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

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

Question

During the 1896 presidential campaign, democratic candidate William Jennings Bryan sought to cause inflation to ____ with his speech on ____.

- Answer**
- decrease; bimetallism
 - decrease; the gold standard
 - ✓ increase; free silver
 - increase; quantitative easing

[◀ Add Question Here](#)

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

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

Question

When the economy experiences an adverse supply shock, the Fed faces a trade-off between ____ and ____.

- Answer**
- ✓ stabilizing output; keeping inflation low
 - stabilizing prices; stimulating output
 - stimulating employment; stimulating output
 - reducing inflation; keeping employment up

[◀ Add Question Here](#)

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

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

Question

Suppose the government is running a large budget deficit and private savers refuse to purchase bonds, the central bank steps in and purchases bonds. These actions lead to the following chain of events:

- Answer**
- a reduction in the monetary base, a reduction in the money supply, and reduced inflation.
 - an increase in cash in circulation, a reduction in reserves; and increased inflation.
 - ✓ an increase in the monetary base, an increase in the money supply, and increased inflation.
 - an increase in bonds in circulation, a reduction in interest rates, and reduced inflation.

[◀ Add Question Here](#)

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

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

Question

The hyperinflation in Serbia was caused by ____; in Germany it was caused by ____; and in Zimbabwe it was caused by ____.

- Answer**
- the war in Croatia; large budget deficits; political repression
 - ✓ the war in Bosnia; war reparations; bad economic policy
 - the war in Bosnia; war reparations; the war in Zambia
 - the war in Slovakia; war reparations; large budget deficits

[◀ Add Question Here](#)

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

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

Question

The average inflation rate in industrialized economies has fallen over time largely due to:

- Answer**
- acceptance of the Phillips curve trade-off between inflation and unemployment.
 - a reduction in the velocity of money due to the advent of ATMs.
 - ✓ recognition by policymakers that monetary policy is neutral in the long run.
 - reduced government budget deficits.

[◀ Add Question Here](#)

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

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

Question

Zimbabwe was able to end its hyperinflation in 2009 when it:

- Answer**
- ✓ adopted the U.S. dollar as its currency.
 - overthrew Robert Mugabe.
 - eliminated its budget deficits.
 - went to war against Zambia.

[◀ Add Question Here](#)

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

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

Question

In _____, _____ set the record for hyperinflation when its inflation rate hit _____ percent.

- Answer**
- the 1920s; Germany; 855 million
 - the 1990s; Serbia; 116 trillion
 - the 2000s; Zimbabwe; hundreds of millions
 - the 1930s; Germany; 213 trillion

[◀ Add Question Here](#)

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

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

Question

The experience of the 1970s has led the U.S. central bank to keep inflation _____ even though the policy has led to _____.

- Answer**
- low; high-interest rates
 - high; high-unemployment
 - low; low unemployment
 - low; recession

[◀ Add Question Here](#)

Question 72 **Multiple Choice** **0 points**

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

Question

When a country uses commodity money, money growth is determined by:

- Answer**
- How many notes the Treasury puts into circulation.
 - How many bills the central bank purchases.
 - How much of the commodity is produced.
 - The amount of loans made by commercial banks.

[◀ Add Question Here](#)

Question 73 **Multiple Choice** **0 points**

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

Question

During the first half of gold standard use in the United States, mines produced new gold at a _____ rate, which resulted in an average inflation rate of _____.

- Answer**
- slow; 15 percent
 - slow; -1 percent
 - high; 15 percent
 - high; -1 percent

[◀ Add Question Here](#)

Question 74 **Multiple Choice** **0 points**

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

Question

When an economy uses fiat money, the rate of money growth is largely determined by:

- Answer**
- the central bank.
 - the amount of gold and silver produced.
 - the amount of gold that is shipped into the country.
 - how many individuals trade silver for silver certificates.

[◀ Add Question Here](#)

Question 75 **Multiple Choice** **0 points**

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

Question

Central banks are sometimes tempted to increase the rate of money growth and create inflation because by doing so they manage to:

- Answer**
- increase unemployment.
 - increase output.
 - appreciate the country's currency.
 - reduce inflation expectations.

[◀ Add Question Here](#)

Question 76 **Multiple Choice** **0 points**

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

Question

Sometimes central banks are reluctant to pursue a policy of disinflation, mainly because that policy:

- Answer**
- implies higher real interest rates and gives less access to credit to many individuals.
 - temporarily raises unemployment.
 - temporarily decreases output.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 77 **Multiple Choice** **0 points**

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

Question

Inflations in the hundreds or thousands of percent are explained by:

- Answer**
- the output-inflation trade-off.
 - large fiscal imbalances and the government's inability to sell bonds to the public.
 - large fiscal imbalances financed by selling bonds to the public.
 - contractionary monetary policy.

[◀ Add Question Here](#)

Question 78 **Multiple Choice** **0 points**

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

Question

Suppose a government sells bonds to the central bank. Which of the following statements is true?

- Answer**
- This form of financing the deficit is called “destroying money.”
 - The government creates a debt to an outside entity.
 - ✓ The government receives money that is referred to as “seigniorage revenue.”
 - The central bank can easily sell these bonds to private banks.

◀ [Add Question Here](#)

Question 79 **Multiple Choice** **0 points**

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

Question

Which of the following countries experienced high inflation rates during the 1980s due to large budget deficits?

- Answer**
- Germany
 - France
 - the United States
 - ✓ Argentina

◀ [Add Question Here](#)

Question 80 **Multiple Choice** **0 points**

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

Question

When economists speak of inflation they mean:

- Answer**
- prices of consumer goods and services are rising.
 - prices of all consumer goods, excluding food and energy, are rising.
 - ✓ all prices, including wages and salaries, are rising.
 - production costs are rising.

◀ [Add Question Here](#)

Question 81 **Multiple Choice** **0 points**

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

Question

To see a decline in a worker's standard of living, there would have to be a decline in her _____, which is defined as _____.

- Answer**
- ✓ real wage; her nominal wage divided by the price level
 - nominal wage; dollars earned
 - real wage; after-tax income
 - salary; dollars earned per hour

◀ [Add Question Here](#)

Question 82 **Multiple Choice** **0 points**

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

Question

The harmful effects of high rates of inflation include:

- Answer**
- shoe leather costs.
 - relative price volatility.
 - income inequality.
 - ✓ All of the answers are correct.

◀ [Add Question Here](#)

Question 83 **Multiple Choice** **0 points**

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

Question

Shoe leather costs _____ in times of high inflation because people _____.

- Answer**
- fall; enjoy low real interest rates
 - are unaffected; rarely buy leather-soled shoes anymore
 - ✓ rise; don't want to hold cash.
 - rise; pay higher taxes on nominal income.

◀ [Add Question Here](#)

Question 84 **Multiple Choice** **0 points**

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

Question

High inflation _____, which _____, harming economic efficiency.

- Answer**
- increases shoe leather costs; distorts firm sales
 - ✓ increase price variation; distorts household purchases and firm sales
 - reduces price variation; increases shoe leather costs
 - decreases inflation surprises; reduces firm distraction

◀ [Add Question Here](#)

Question 85 **Multiple Choice** **0 points**

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

Question

High rates of inflation worsen _____, because the poor hold and receive their wages in _____ rather than enjoying high _____ offered in bank accounts.

- Answer**
- ✓ income inequality; cash; nominal interest rates
 - wage inequality; cash; real interest rates
 - shoe leather costs; cash; real estate returns
 - income inequality; commodities; cash deposits

◀ [Add Question Here](#)

Question 86 **Multiple Choice** **0 points**

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

Question

The colorful stories about the Brazilian inflation of the 1990s discussed which of the costs of inflation?

- Answer**
- shoe leather cost
 - price variability
 - firm distraction
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 87 **Multiple Choice** **0 points**

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

Question

In countries with moderate inflation, which of the following represents the costs of inflation?

- Answer**
- inflation surprises
 - shoe leather costs
 - firm distraction
 - relative price distortion

[◀ Add Question Here](#)

Question 88 **Multiple Choice** **0 points**

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

Question

Large inflation surprises reduce the _____ real interest rate, which increases bank insolvency because _____.

- Answer**
- ex ante; $\pi > \pi^e$
 - ex post; $\pi < \pi^e$
 - ex post; $\pi > \pi^e$
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 89 **Multiple Choice** **0 points**

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

Question

Uncertainty about inflation _____ borrowers and lenders from(to) enter(ing) the loan market because of the effects on the _____.

- Answer**
- encourages; ex post real interest rate
 - encourages; ex ante real interest rate
 - discourages; ex post real interest rate
 - discourages; nominal real interest rate

[◀ Add Question Here](#)

Question 90 **Multiple Choice** **0 points**

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

Question

In countries with moderate inflation, costs arise from having to:

- Answer**
- pay higher taxes on the same real income.
 - pay higher capital gains tax relative to real returns.
 - assess potential inflationary surprises.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 91 **Multiple Choice** **0 points**

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

Question

Using the notation in the text, the after-tax real interest rate is written as:

- Answer**
- $\hat{r} = (1 - \tau)i - \pi$.
 - $\hat{r} = (1 - \tau)r - \pi$.
 - $\hat{r} = (1 - \tau)(r + \pi) - \pi$.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 92 **Multiple Choice** **0 points**

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

Question

Inflation _____ the overall real return to savings.

- Answer**
- increases
 - reduces
 - has no impact on
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 93 **Multiple Choice** **0 points**

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

Question

If the tax rate on savings is 20 percent, the nominal interest rate is 4 percent, and the inflation rate is 3.2 percent, the real after-tax real interest rate is:

- Answer**
- 0 percent.
 - 3.2 percent.
 - 6.4 percent.
 - 2.4 percent.

[◀ Add Question Here](#)

Question 94 **Multiple Choice** **0 points**

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

Question

If the tax rate on savings is 20 percent, the nominal interest rate is 3 percent, and the inflation rate of 5 percent, the after-tax nominal interest rate is:

- Answer**
- 1.4 percent.
 - 2.4 percent.
 - 2.85 percent.
 - 1.9 percent.

[◀ Add Question Here](#)

Question 95 **Multiple Choice** **0 points**

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

Question

If the tax rate on savings is 20 percent, the nominal interest rate is 3 percent, and the inflation rate is 5 percent, the after-tax *nominal* interest rate is _____ and the after-tax *real* interest rate is _____.

- Answer**
- 2.4 percent; -2.6 percent
 - 2.4 percent; 1.4 percent
 - 2.85 percent; 1.9 percent
 - 3 percent; 1.9 percent

[◀ Add Question Here](#)

Question 96 **Multiple Choice** **0 points**

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

Question

When savings are taxed, if you see that inflation is too high it gives you a(n) _____, because the _____.

- Answer**
- disincentive to save; nominal interest rate is negative
 - disincentive to save; real interest rate is negative
 - incentive to spend; real interest rate is higher than the nominal interest rate
 - incentive to save; real interest rate higher than the nominal interest rate

[◀ Add Question Here](#)

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

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

Question

The costs of inflation that economists have identified include:

- I. shoe leather costs.
- II. distracted firms.
- III. income inequality.

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

[◀ Add Question Here](#)

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

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

Question

During the 1960s and 1970s, Brazil experienced:

- I. relative price variability.
- II. growing income inequality.
- III. hyperinflation.

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

[◀ Add Question Here](#)

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

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

Question

If the tax rate on savings is 10 percent, the nominal interest rate is 4 percent, the inflation rate is 2 percent, then the after-tax nominal interest rate is ____ and the after-tax real interest rate is ____.

- Answer**
- 6 percent; 4 percent
 - 4 percent; 2 percent
 - 1.6 percent; -0.6 percent
 - 3.6 percent; 1.6 percent

[◀ Add Question Here](#)

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

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

Question

Which of the following statements about the effects of inflation is true?

- Answer**
- Economists are very precise in describing why inflation is so bad.
 - There is widespread consensus that a 5 percent inflation rate is very detrimental for an economy.
 - Empirical studies have not yet established the magnitude of the effects of inflation in an economy.
 - Most estimated measures of the costs of inflation are big numbers.

[◀ Add Question Here](#)

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

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

Question

When inflation raises the nominal wage, and all other prices in the economy by the same percentage, an individual's:

- Answer**
- real wage increases.
 - real wage decreases.
 - real wage is unchanged.

real buying power decreases.

[◀ Add Question Here](#)

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

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

Question

Which of the following include costs of high inflation?

- Answer**
- "belt costs"
 - relative-price variability
 - income equality
 - increased incentives for investment

[◀ Add Question Here](#)

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

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

Question

According to the shoe leather costs of inflation, high inflation makes individuals willing to hold _____ money, which makes transactions _____.

- Answer**
- more; easier
 - less; harder
 - less; easier
 - more; harder

[◀ Add Question Here](#)

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

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

Question

High inflation distracts firms from their usual line of business, because they now have an incentive to:

- Answer**
- prompt their customers to pay their bills before money loses value.
 - reduce costs by paying their suppliers immediately.
 - increase their money holdings in cash.
 - invest in modern machinery.

[◀ Add Question Here](#)

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

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

Question

When inflation is high:

- Answer**
- relative prices remain unchanged.
 - some prices change before others.
 - consumers spend less time comparing prices.
 - the economy becomes more efficient.

[◀ Add Question Here](#)

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

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

Question

High inflation often results in _____ income inequality. One of the reasons for this effect is that inflation is more costly for the poor, who have relatively _____ money holdings.

- Answer**
- more; large
 - more; small
 - less; large
 - less; small

[◀ Add Question Here](#)

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

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

Question

Moderate inflation (i.e., around 10 percent per year) can be harmful, due to:

- Answer**
- shoe leather costs.
 - its effects on income inequality.
 - inflation uncertainty.
 - "belt costs."

[◀ Add Question Here](#)

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

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

Question

Moderate inflation (i.e., around 10 percent per year) can be harmful, due to:

- Answer**
- distortions of the tax system.
 - its effects on income inequality.
 - inflation uncertainty.
 - Both a and c are correct.

[◀ Add Question Here](#)

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

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

Question

Even when inflation is moderate (i.e., around 10 percent per year), inflation uncertainty encourages borrowers and lenders to _____ the loan market, thereby making the financial system _____ efficient in channeling funds from savers to borrowers.

- Answer**
- enter; more
 - enter; less
 - leave; more
 - leave; less

[◀ Add Question Here](#)Question 110 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Assuming individuals pay taxes based on their nominal interest income, inflation means that people pay _____ taxes on the same real income, thereby _____ saving.

Answer

- higher; encouraging
- lower; discouraging
- higher; discouraging
- lower; encouraging

[◀ Add Question Here](#)Question 111 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

The lowest nominal interest rate the central bank can set is:

- Answer** 0 percent.
 1 percent.
 5 percent.
 the rate of inflation.

[◀ Add Question Here](#)Question 112 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

In the liquidity trap, output is below its potential at a nominal interest rate of _____. In this situation, the real interest rate is _____.

- Answer** 0 percent; $-\pi$
 2 percent; $2\text{ percent} - \pi$
 0 percent; 0 percent
 1 percent; $\pi - 1\text{ percent}$

[◀ Add Question Here](#)Question 113 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Suppose inflation is close to zero and an adverse expenditure shock occurs. By the time monetary policy is effective, due to the _____, it is possible for the economy to enter a(n) _____.

- Answer** inside lag; liquidity trap
 inside and outside lags; a stagflationary environment
 outside lag; inflation spiral
 outside lag; liquidity trap

[◀ Add Question Here](#)Question 114 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

The deflation that occurred in the early 1930s was caused by the decline in the _____ caused by bank panics.

- Answer** M2 money supply
 real interest rate
 tax revenues
 money multiplier

[◀ Add Question Here](#)Question 115 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

If output is below potential output at a nominal interest rate of zero, a central bank _____ conduct _____.

- Answer** can effectively; fiscal policy
 cannot effectively; monetary policy
 cannot effectively; fiscal policy
 is regularly able to; expansionary monetary policy

[◀ Add Question Here](#)Question 116 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Today, there is little chance of _____ caused by a low growth rate of money.

- Answer** deflation
 disinflation
 hyperinflation
 high constant inflation

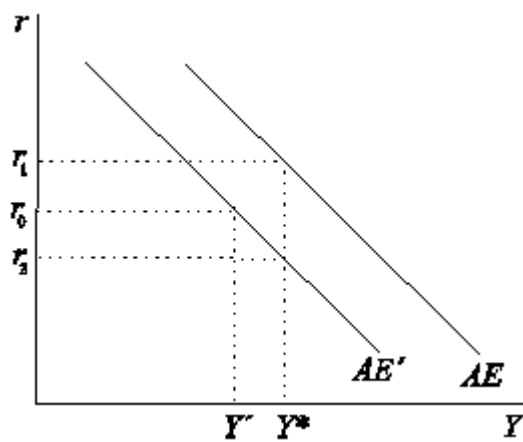
[◀ Add Question Here](#)Question 117 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

The liquidity trap is a situation in which:

- Answer** vault cash falls to zero.
 the central bank loses all its deposits.
 the central bank loses its ability to manage the inflation rate.
 real interest rates are zero.

[◀ Add Question Here](#)Question 118 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

Question
Figure 14.1



Reference: Ref 14-1

(Figure 14.1) Starting at potential output, if the $AE \rightarrow AE'$ the economy experiences a _____. To keep output constant, the Fed would have to _____. In a liquidity trap the real interest rate cannot fall below _____.

- Answer**
- negative supply shock; lower the real interest rate to r_0 ; $-\pi$, represented by r_2
 - positive demand shock; lower the real interest rate to r_2 ; π , represented by r_0
 - ✓ negative demand shock; lower the real interest rate to r_2 ; $-\pi$, represented by r_0
 - positive supply shock; lower the real interest rate to r_2 ; 0 , represented by r_0

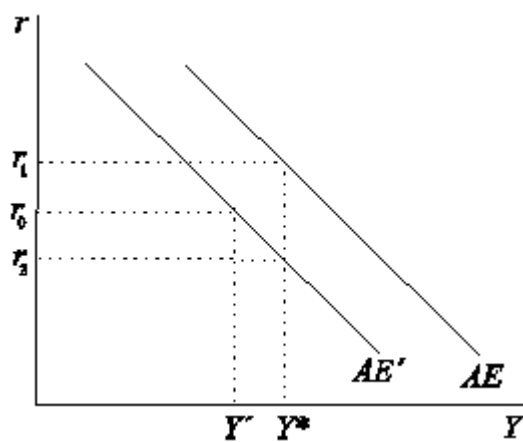
[Add Question Here](#)

Question 119 Multiple Choice

0 points

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

Question
Figure 14.1



Reference: Ref 14-1

(Figure 14.1) Starting at potential output, if consumer confidence falls, _____. If the Fed wants to keep output constant it would _____, but it wouldn't be possible if there is _____.

- Answer**
- $AE' \rightarrow AE$; raise the real interest rate to r_1 ; a liquidity trap
 - ✓ $AE \rightarrow AE'$; lower the real interest rate to r_2 ; a liquidity trap
 - $AE \rightarrow AE'$; lower the real interest rate to r_0 ; money neutrality
 - $AE \rightarrow AE'$; lower the real interest rate to r_2 ; money neutrality

[Add Question Here](#)

Question 120 Multiple Choice

0 points

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

Question

If the nominal interest rate is 0 and the rate of inflation is -3 percent, the lower bound on the real interest rate is:

- Answer**
- -3 percent
 - 0 percent.
 - ✓ 3 percent.
 - There is not enough information provided to answer the question.

[Add Question Here](#)

Question 121 Multiple Choice

0 points

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

Question

If the nominal interest rate is 0 and the rate of inflation is -3 percent, the lower bound on the real interest rate is _____. This makes it _____ that that central bank will be able to end a recession.

- Answer**
- -3 percent; more likely
 - 0 percent; impossible
 - ✓ 3 percent; less likely
 - 3 percent; more likely

[Add Question Here](#)

Question 122 Multiple Choice

0 points

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

Question

In 2003, the Fed reduced the nominal federal funds rate to 1 percent. At that time, inflation was also 1 percent, making the real interest rate _____. If inflation at the time was actually -1 percent, the real interest rate would have been _____.

- Answer**
- 2 percent; 0 percent.
 - 1 percent; -2 percent
 - 0 percent; -1 percent
 - ✓ 0 percent; 2 percent

[Add Question Here](#)

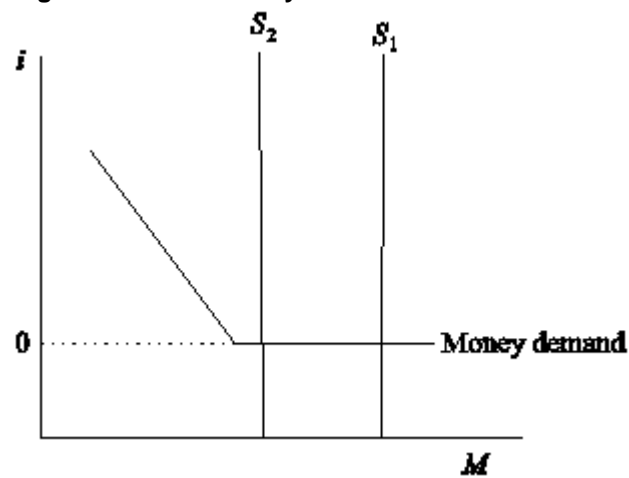
Question 123 Multiple Choice

0 points

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

Question

Figure 14.2: The Money Market



Reference: Ref 14-2

(Figure 14.2: The Money Market) If the Fed increases money supply, _____ but the nominal interest rate _____. This is _____.

- Answer**
- $S_2 \rightarrow S_1$; is not affected; the liquidity trap
 - $S_1 \rightarrow S_2$; is not affected; the liquidity trap
 - $S_2 \rightarrow S_1$; is not affected; money neutrality
 - There is not enough information provided to answer the question.

[Add Question Here](#)

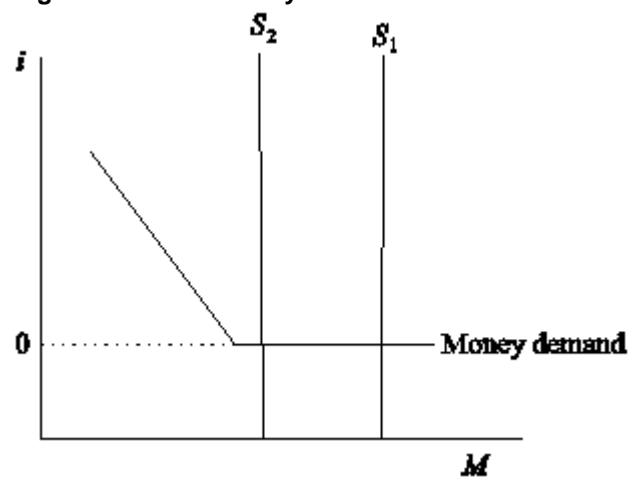
Question 124 Multiple Choice

0 points

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

Question

Figure 14.2: The Money Market



Reference: Ref 14-2

(Figure 14.2: The Money Market) If the economy experiences a negative expenditure shock, the Fed would be worried about a(n) _____ and _____, but this policy would have no effect because of _____.

- Answer**
- recession; $S_1 \rightarrow S_2$; the liquidity trap
 - recession; $S_2 \rightarrow S_1$; the liquidity trap
 - inflationary spiral; $S_1 \rightarrow S_2$; the liquidity trap
 - recession; S_1 would not shift; a long outside lag

[Add Question Here](#)

Question 125 Multiple Choice

0 points

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

Question

Keynes suggested a solution to the liquidity trap:

- Answer**
- expansionary fiscal policy.
 - lower taxes.
 - increased government spending.
 - All of the answers are correct.

[Add Question Here](#)

Question 126 Multiple Choice

0 points

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

Question

To escape the liquidity trap, John Maynard Keynes suggested _____, which would increase inflation along the _____.

- Answer**
- expansionary fiscal policy; Lucas curve
 - expansionary fiscal policy; Phillips curve
 - contractionary fiscal policy; Engel curve
 - expansionary fiscal policy; aggregate expenditure curve

[Add Question Here](#)

Question 127 Multiple Choice

0 points

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

Question

During the deep Japanese recession in the 1990s and early 2000s, The Bank of Japan attempted to restart the economy with _____. However, because of a _____ the policy was ineffectual.

- Answer**
- large tax cuts; liquidity trap
 - contractionary monetary policy; liquidity trap
 - higher real interest rates; high government debt
 - ✓ large expansionary open market operations; liquidity trap

[◀ Add Question Here](#)

Question 128 **Multiple Choice** **0 points**

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

Question

Japan experienced deflation from 1999 to 2005, and the United States has experienced inflation of about 1 percent in recent years. Economists worry about deflation because:

- I. it does not allow the Fed to cut interest rates to end a recession.
- II. it creates the risk of a liquidity trap.
- III. it causes real interest rates to rise.

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

[◀ Add Question Here](#)

Question 129 **Multiple Choice** **0 points**

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

Question

Some economists believe that policymakers can reduce long-term interest rates by changing expectations of long-term interest rates through _____.

- Answer**
- announcing an intent to keep short-term interest rates low
 - increasing the government's purchases of long-term bonds
 - reducing the government's purchases of short-term bonds
 - ✓ All of the answers are correct.

[◀ Add Question Here](#)

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

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

Question

When the economy is stuck in a liquidity trap, monetarists believe the Fed should stimulate the economy by ____; others believe that policymakers could lift the economy out of the recession by _____.

- Answer**
- cutting interest rates; reducing unemployment
 - ✓ increasing inflation; stimulating aggregate demand
 - cutting short-term interest rates; reducing inflation
 - increasing the money supply; increasing taxes

[◀ Add Question Here](#)

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

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

Question

The *liquidity trap* is defined as a situation in which output is ____ potential and the nominal interest rate is _____.

- Answer**
- above; very high
 - ✓ below; zero
 - below; very high
 - above; zero

[◀ Add Question Here](#)

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

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

Question

Suppose inflation equals 5.0 percent. According to the zero bound on the nominal interest rate, the real rate cannot be less than:

- Answer**
- 5.0 percent.
 - ✓ -5.0 percent.
 - zero.
 - 2.5 percent.

[◀ Add Question Here](#)

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

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

Question

According to Keynes, the risk of a liquidity trap makes _____ policy a(n) _____ tool for combating recessions.

- Answer**
- monetary; reliable
 - fiscal; reliable
 - ✓ monetary; unreliable
 - fiscal; unreliable

[◀ Add Question Here](#)

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

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

Question

Which of the following strategies to escape a liquidity trap were followed by the Federal Reserve during the last financial crisis in the United States?

- Answer**
- keeping changes in the federal funds rate secret for as long as possible.
 - increasing expected inflation.
 - increasing term premiums to increase long-term rates.
 - ✓ reducing short-term expected interest rates through announcements.

[◀ Add Question Here](#)

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

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

Question

Keynes recommended conducting _____ policy to escape a liquidity trap.

Answer

- expansionary monetary
- contractionary monetary
- ✓ expansionary fiscal
- contractionary fiscal

◀ [Add Question Here](#)

OK