Pool Canvas

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Name TestBanks Chapter 13 Multiple-Choice Questions
Description Question pool for TestBanks Chapter 13 Multiple-Choice Questions
Instructions

Modify

Add Question Here

Question 1 **Multiple Choice** **0 points** Modify Remove

Question
The reason cited in the text for the recession of 2001 was:

Answer
✓ a fall in investment.
increase in computer expenditures.
an increase in wealth.
rising real estate prices.

Add Question Here

Question 2 **Multiple Choice** **0 points** Modify Remove

Question
The process through which monetary policy affects the real economy is called:

Answer
the Fisher equation.
Okun's law.
fiscal policy.
✓ the monetary transmission mechanism.

Add Question Here

Question 3 **Multiple Choice** **0 points** Modify Remove

Question
To examine the relationship between the federal funds rate and longer-term interest rates, we can use the:

Answer
Phillips curve.
✓ term structure.
Fisher equation.
monetary transmission mechanism.

Add Question Here

Question 4 **Multiple Choice** **0 points** Modify Remove

Question
The expectations theory of the term structure of interest rates is given as:

Answer
$i_n(t) = [i_1(t) + Ei_1(t+1) + \ldots + Ei_1(t+n-1)] + \tau_n.$
$i_n(t) = N[i_1(t) + Ei_1(t+n-1)].$
✓ $i_n(t) = (1/N)[i_1(t) + Ei_1(t+1) + \ldots + Ei_1(t+n-1)] + \tau_n.$
$i_n(t) = (1/\tau_n)[i_1(t) + Ei_1(t+1) + \ldots + Ei_1(t+n-1)].$

Add Question Here

Question 5 **Multiple Choice** **0 points** Modify Remove

Question
If the Fed raises the federal funds rate in its current meeting it:

Answer
✓ will likely increase again it at the next meeting.
will likely lower it at the next meeting.
has no incentive to change it again.
knows inflation is in check.

Add Question Here

Question 6 **Multiple Choice** **0 points** Modify Remove

Question
According to the _____, when the Fed lowers the federal funds rate, longer-term interest rates will _____.

Answer
expectations theory; rise
liquidity preference model; rise
✓ expectations theory; fall
loanable funds model; fall

Add Question Here

Question 7 **Multiple Choice** **0 points** Modify Remove

Question
A graphical representation of interest rates of various maturities is called the:

Answer
liquidity curve.
✓ yield curve.
bond yield representation.
Engel Curve.

Add Question Here

Question 8 **Multiple Choice** **0 points** Modify Remove

Question
If the FOMC unexpectedly raises the federal funds rate, _____ will _____.

Answer
- long-term interest rates; rise along the yield curve
- ✓ the yield curve; shift up
- inflation; rise
- changes in inflation expectations; shift Okun's curve

Add Question Here

Question 9 **Multiple Choice** **0 points** Modify Remove

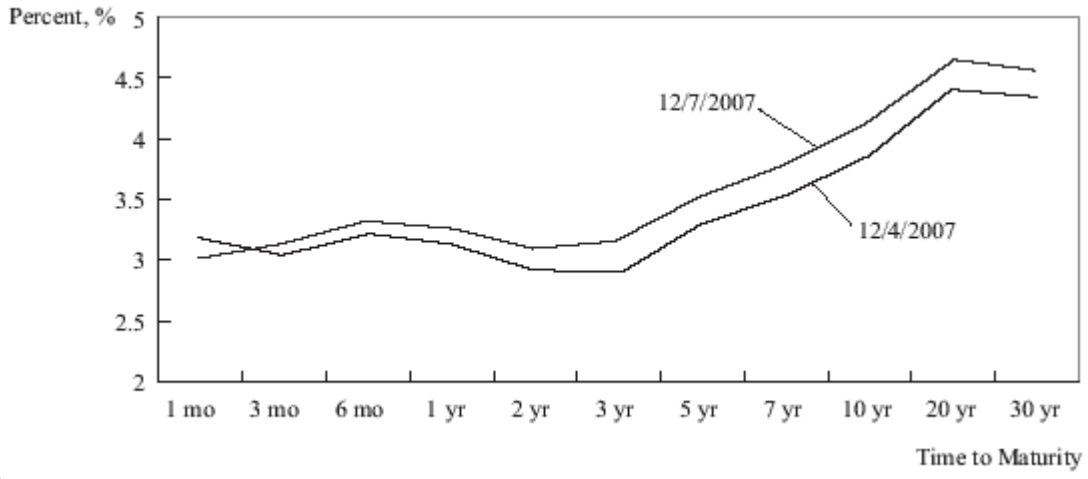
Question
If people expect the FOMC to raise the federal funds rate and it does, the:

Answer
- ✓ yield curve does not change.
- yield curve shifts up.
- Phillips curve shifts left.
- yield curve shifts down.

Add Question Here

Question 10 **Multiple Choice** **0 points** Modify Remove

Question
Figure 13.1: Yield Curves



Reference: Ref 13-1

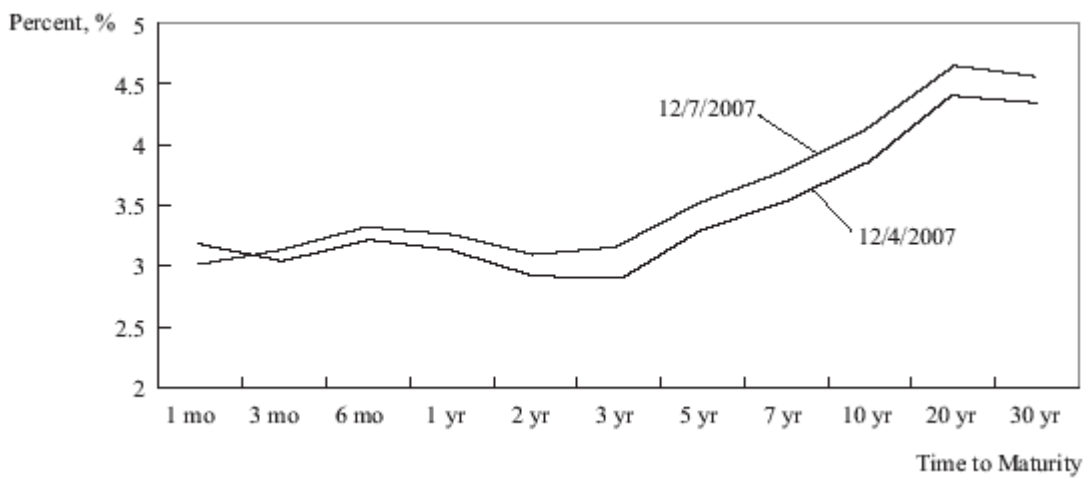
(Figure 13.1: Yield Curves) Consider the yield curves for December 4 and December 7, 2007. What do you expect happened between these dates?

Answer
- There was a decrease in the demand for loanable funds.
- The FOMC raised the federal funds rate as expected.
- There was a decline in expected inflation.
- ✓ The FOMC unexpectedly raised the federal funds rate.

Add Question Here

Question 11 **Multiple Choice** **0 points** Modify Remove

Question
Figure 13.1: Yield Curves



Reference: Ref 13-1

(Figure 13.1: Yield Curves) Consider the yield curves for December 4 and December 7, 2007. Using the _____, you would guess that between the two dates _____.

Answer
- loanable funds model; the federal government paid off a portion of its debt
- loanable funds model; consumers began to borrow less
- ✓ expectations theory; the FOMC unexpectedly raised the federal funds rate
- There is not enough information provided to answer the question.

Add Question Here

Question 12 **Multiple Choice** **0 points** Modify Remove

Question
If bond traders expect that an economy is sliding into recession, they _____ in anticipation of _____.

Answer
- ✓ bid bond rates down; a decrease in the federal funds target rate
- decrease the price of their services; new regulations on bond trading
- bid bond rates down; an increase in the federal funds target rate
- bid bond rates up; a decline in the stock market

Add Question Here

Question 13 **Multiple Choice** **0 points** Modify Remove

Question
You read in the paper that bond interest rates have risen. From the behavior of these rates, you might deduce that:

Answer
- bond traders are greedy and want higher returns.
- ✓ bond traders expect the FOMC to raise the target federal funds rate next time they meet.
- foreigners are buying U.S. securities.
- the stock market is in decline.

Add Question Here

Question 14 **Multiple Choice** **0 points** Modify Remove

Question
Kenneth Kuttner's study of interest rates and the federal funds rate:

Answer
- increased confidence in the size of the liquidity premium.
- decreased confidence in the expectations theory of term structure.
- found no connection between those two interest rates.
- ✓ increased confidence in the expectations theory of term structure.

Add Question Here

Question 15 **Multiple Choice** **0 points** Modify Remove

Question
Kenneth Kuttner's study showed that _____, just as the _____ theory predicts.

Answer
- the effects of federal funds rate changes are the same for all interest rate maturities; expectations
- ✓ the effects of federal funds rate changes die out for long interest rate maturities; expectations
- the federal funds rate has no impact on long-term interest rates; liquidity preference theory
- changes in the monetary base have no impact on interest rates; Kuhn-Tucker

Add Question Here

Question 16 **Multiple Choice** **0 points** Modify Remove

Question
Long-term rates usually are not as sensitive as medium-term rates are when the Fed changes short-term interest rates, because:

Answer
- the Fed does not control long-term rates.
- bond traders prefer to keep long-term rates constant, so they do not take the Fed's policy into account when forming their expectations.
- ✓ bond traders expect the Fed to continue with its policy, so their expectations do not change when the Fed does what they expect.
- bond traders are able to collect information in advance of the interest rate change.

Add Question Here

Question 17 **Multiple Choice** **0 points** Modify Remove

Question
Suppose that the yield curve is lower at every point in time on December 15 than it was on November 15. What could explain this shift?

Answer
- ✓ The Fed unexpectedly cut its target federal funds rate on November 15.
- The Fed announced on December 15 that it would raise interest rates.
- The Fed announced on November 15 that it would raise interest rates.
- The Fed unexpectedly increased its target federal funds rate on November 15.

Add Question Here

Question 18 **Multiple Choice** **0 points** Modify Remove

Question
Politicians are concerned that the economy is not recovering quickly from a recession, so they announce a plan to cut tax rates. This announcement will likely cause the Fed to:

Answer
- reduce interest rates to reinforce the policy.
- increase interest rates to offset the policy.
- do nothing to avoid interfering with the policy.
- ✓ There is not enough information provided to answer the question.

Add Question Here

Question 19 **Multiple Choice** **0 points** Modify Remove

Question
If the yield curve is higher this year then last year, it is likely that:

Answer
- the Fed cut the federal funds rate a year ago.
- ✓ the Fed raised the federal funds rate a year ago.
- bond traders now expect lower interest rates.
- bond traders now expect higher interest rates.

Add Question Here

Question 20 **Multiple Choice** **0 points** Modify Remove

Question
Kenneth Kuttner examined how monetary policy surprises affected interest rates by:

Answer
- investing in the futures market and comparing his results with results predicted by theory.
- subtracting the rate of inflation from the nominal interest rate to obtain a measure of inflation expectations.
- ✓ examining how unexpected changes in short-term rates affected long-term rates.
- measuring the difference in the long-term rate and the short-term rate between 1989 and 2000.

Add Question Here

Question 21 **Multiple Choice** **0 points** Modify Remove

Question
Interest rates that affect aggregate expenditure are mainly:

Answer
- intermediate rates.
- short-term rates.
- very short-term rates.
- ✓ intermediate and long-term rates.

Add Question Here

Question 22 **Multiple Choice** **0 points** Modify Remove

Question
According to the expectations theory of the term structure, when the Fed surprises individuals by raising the federal funds target:

Answer
- the 1-year rate decreases.
- the 1-year rate is not affected, since the federal funds rate is a 1-day rate.
- ✓ the 1-year rate jumps up substantially.
- the 1-year rate is affected by only 1/365 of the increase in the federal funds rate target.

Add Question Here

Question 23 **Multiple Choice** **0 points** Modify Remove

Question
Consider the Fed's changes to the federal funds target effect on long-term rates. The longer the interest rates term, the _____ the effect of Fed's actions. In particular, a 0.5 percent change in the federal funds rate target affects a 30-year rate by ____.

Answer
- larger; an insignificant amount
- ✓ smaller; an insignificant amount
- smaller; more than 1.5 percent
- larger; more than 1.5 percent

Add Question Here

Question 24 **Multiple Choice** **0 points** Modify Remove

Question
Bond traders and the public in general can forecast future changes in the federal funds rate based on:

Answer
- the most recent change in the Dow Jones Index.
- ✓ speeches made by Fed officials suggesting their opinions about the economy and their views on monetary policy.
- the net change in the price of U.S. Treasury bonds.
- the consumer confidence index.

Add Question Here

Question 25 **Multiple Choice** **0 points** Modify Remove

Question
Empirical evidence that measured the effects of monetary policy on the term structure of interest rates concluded that:

Answer
- the FOMC's actions had no effect on short- and intermediate-term interest rates.
- ✓ changes to the federal funds rate had a larger effect on longer-term rates when the change was unexpected.
- the expectations theory of the term structure does not provide a good theoretical framework to explain this link.
- the FOMC's actions were effective only when intended to increase interest rates.

Add Question Here

Question 26 **Multiple Choice** **0 points** Modify Remove

Question
Empirical evidence that measured the effects of monetary policy on the term structure of interest rates:

Answer
- concluded that unexpected changes in the federal funds rate target had substantial effects in short and intermediate rates.
- concluded that the effect of an unexpected change in the federal funds rate target dies out for longer maturities.
- increased confidence of economists in the expectations theory of the term structure.
- ✓ All of the answers are correct.

Add Question Here

Question 27 **Multiple Choice** **0 points** Modify Remove

Question
Suppose the FOMC unexpectedly raises the federal funds rate target. As a result, the 1-year rate increases by 0.75 percent and the 5-year rate increases by 0.50 percent. One would expect the 30-year rate to increase by:

Answer
- ✓ less than 0.50 percent.
- more than 0.75 percent.
- more than 0.50 percent but less than 0.75 percent.
- exactly 0.5 percent.

Add Question Here

Question 28 **Multiple Choice** **0 points** Modify Remove

Question
A fall in the Dow Jones industrial index will lead to a:

Answer
- rightward shift in the aggregate expenditure function.
- ✓ leftward shift in the aggregate expenditure function.
- leftward shift in the Phillips curve.
- rightward movement along the aggregate expenditure function.

Add Question Here

Question 29 **Multiple Choice** **0 points** Modify Remove

Question
The general consensus on the impacts of wealth is that:

Answer
$0.04 of new wealth increases consumption by $1.00.
a dollar of new wealth increases savings by $0.04.
✓ a dollar of new wealth increases consumption by $0.04.
a dollar of new wealth has no impact on consumption.

Add Question Here

Question 30 **Multiple Choice** **0 points** Modify Remove

Question
If your stock portfolio increases by $1.00, research has demonstrated that you will:

Answer
decrease your consumption by $0.20.
✓ increase your consumption by $0.04.
increase your savings by $0.04.
begin to worry about inflation.

Add Question Here

Question 31 **Multiple Choice** **0 points** Modify Remove

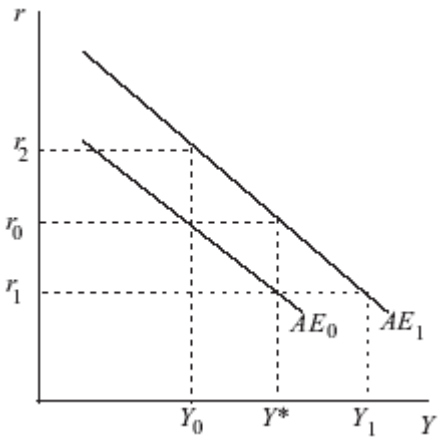
Question
If stock prices begin to rise:

Answer
aggregate household expenditure will rise.
firms will increase their investment expenditures.
banks will be willing to give more loans.
✓ All of the answers are correct.

Add Question Here

Question 32 **Multiple Choice** **0 points** Modify Remove

Question
Figure 13.2



Reference: Ref 13-2

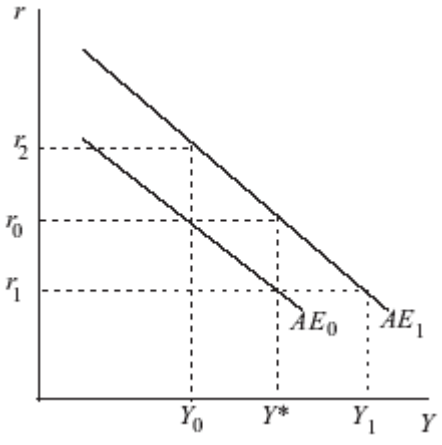
(Figure 13.2) A decline in stock markets will:

Answer
shift the $AE_0 \rightarrow AE_1$.
✓ shift the $AE_1 \rightarrow AE_0$.
increase the real interest rate $r_2 \rightarrow r_0$ along the *AE* curve.
There is not enough information provided to answer the question.

Add Question Here

Question 33 **Multiple Choice** **0 points** Modify Remove

Question
Figure 13.2



Reference: Ref 13-2

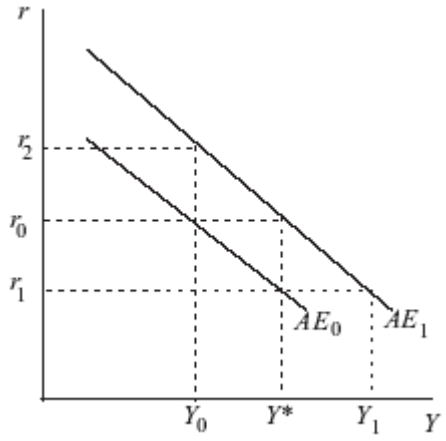
(Figure 13.2) An increase in home values will:

Answer
shift the $AE_1 \rightarrow AE_0$.
✓ shift the $AE_0 \rightarrow AE_1$.
increase the real interest rate $r_2 \rightarrow r_0$ along the *AE* curve.
There is not enough information provided to answer the question.

Add Question Here

Question 34 **Multiple Choice** **0 points** Modify Remove

Question
Figure 13.2



Reference: Ref 13-2

(Figure 13.2) A decline in stock markets will _____, because _____.

Answer ✓ shift the $AE_1 \rightarrow AE_0$; decreases in wealth encourage less saving

shift the $AE_0 \rightarrow AE_1$; increases in wealth encourage more consumption

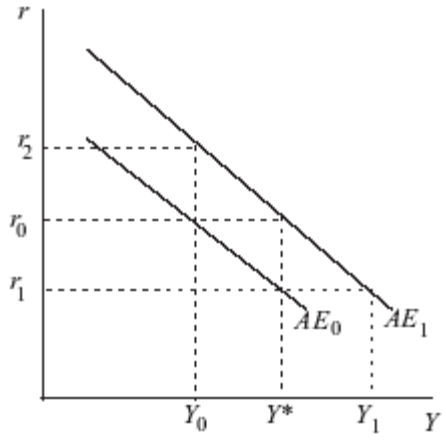
increase the real interest rate $r_2 \rightarrow r_0$ along the *AE* curve; firms will increase investment

There is not enough information provided to answer the question.

Add Question Here

Question 35 **Multiple Choice** **0 points** Modify Remove

Question
Figure 13.2



Reference: Ref 13-2

(Figure 13.2) An increase in home values and stocks will _____, because _____.

Answer

shift the $AE_0 \rightarrow AE_1$; banks are willing to offer more loans

shift the $AE_0 \rightarrow AE_1$; households feel wealthier and increase consumption

shift the $AE_0 \rightarrow AE_1$; firms issue new stock to finance investment

✓ All of the answers are correct.

Add Question Here

Question 36 **Multiple Choice** **0 points** Modify Remove

Question
(Figure 13.3)

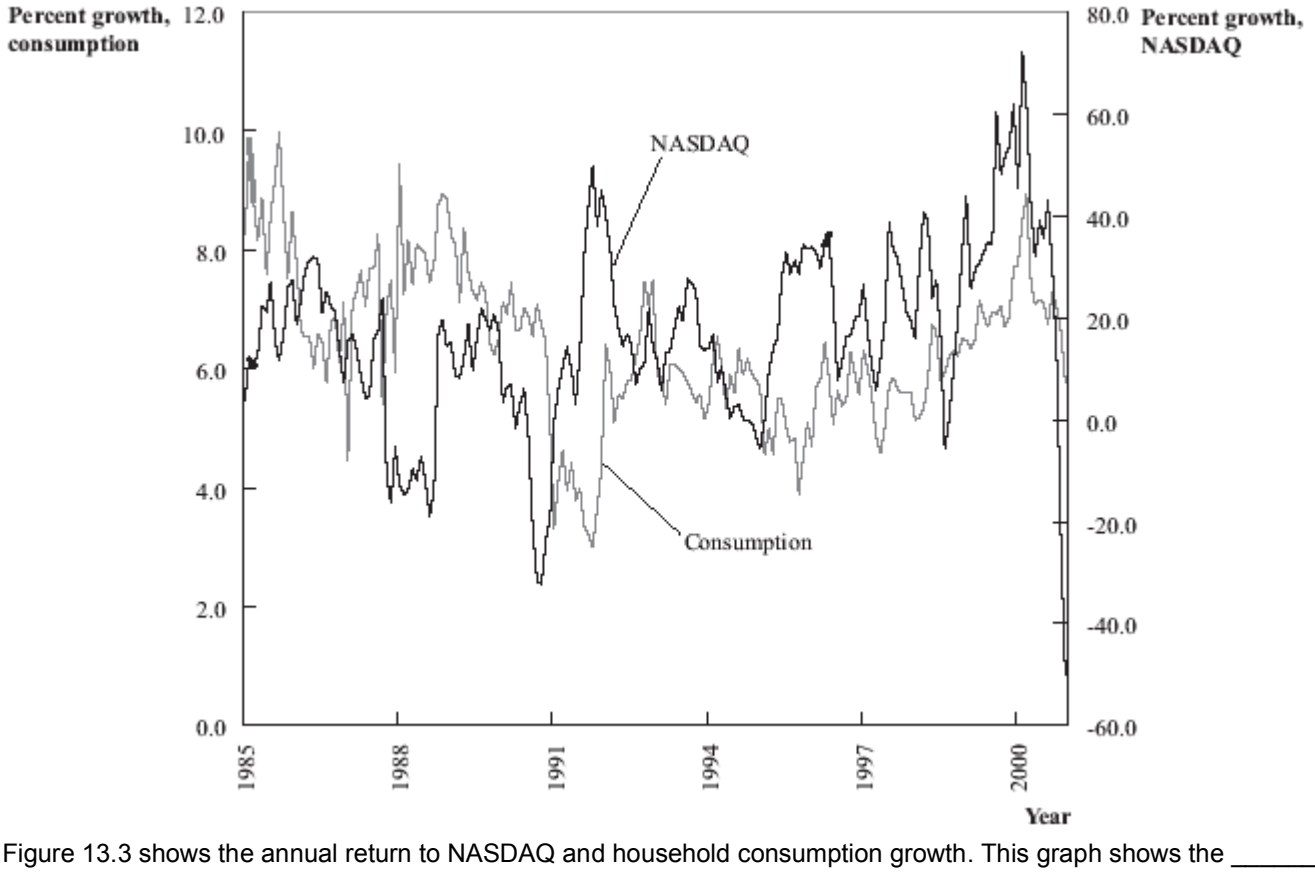


Figure 13.3 shows the annual return to NASDAQ and household consumption growth. This graph shows the _____, and in the model of aggregate expenditure an increase in NASDAQ would _____.

Answer ✓ positive relationship between wealth and consumption; shift the *AE* curve to the right

negative relationship between savings and consumption; shift the *AE* curve to the right

positive relationship between wealth and savings; be a movement along the *AE* to the left

lack of relationship between wealth and consumption; be a movement along the *AE* to the right

Add Question Here

Question 37 **Multiple Choice** **0 points** Modify Remove

Question
In addition to changes in asset prices, which of the following may also *discourage* bank lending?
I. risk perceptions
II. changes in regulation
III. a reduction in capital requirements

Answer

I only
II only
✓ I and II
II and III

Add Question Here

Question 38 **Multiple Choice** **0 points** Modify Remove

Question
The cause of the capital crunch in the subprime mortgage crisis of 2007–2009 was:

Answer

risk perceptions.
increased regulation.
banks became more conservative.
✓ All of the answers are correct.

Add Question Here

Question 39 **Multiple Choice** **0 points** Modify Remove

Question
Which of the following occurred during the Japanese downturn from 1992–2002?

Answer

rising unemployment
political discontent
increased suicides
✓ All of the answers are correct.

Add Question Here

Question 40 **Multiple Choice** **0 points** Modify Remove

Question
The seed of the Japanese slump occurred when:

Answer

the yen depreciated.
✓ loans to large firms declined.
unemployment fell.
Junichiro Koizumi was elected prime minister of Japan.

Add Question Here

Question 41 **Multiple Choice** **0 points** Modify Remove

Question
In the 1990s, banking regulations prevented Japanese banks from engaging in new lines of business; they therefore relied more heavily on _____ to generate profits, which, among other things, contributed to _____.

Answer

investment banking; a decline in investment
offering savings accounts; a decline in transaction accounts
✓ real estate loans; a real estate bubble
tax revenues; an increase in personal savings

Add Question Here

Question 42 **Multiple Choice** **0 points** Modify Remove

Question
Which of the following contributed to the vicious cycle of the Japanese economy in the 1990s?
I. Japanese firms experienced weak earnings, which increased loan defaults.
II. Japanese savers put more money into savings accounts at Japanese banks.
III. Higher interest rates charged by foreign banks to Japanese banks.

Answer

I only
I and II
✓ I and III
II and III

Add Question Here

Question 43 **Multiple Choice** **0 points** Modify Remove

Question
After ten-plus years, Japan was finally able to pull itself out of an economic slump because:

Answer

✓ a weak yen helped increase Japanese exports.
savers finally enjoyed higher than usual interest rates.
tax revenues rose.
the central bank bought up private banks' bad loans.

Add Question Here

Question 44 **Multiple Choice** **0 points** Modify Remove

Question
The phenomenon that new investment magnifies investment fluctuations in aggregate expenditure is called the:

Answer

investment coefficient.
profit magnifier.
✓ investment multiplier.
interest rate amplification.

Add Question Here

Question 45 **Multiple Choice** **0 points** Modify Remove

Question
A rise in aggregate expenditure _____ firms' earnings, which pushes _____, which _____.

Answer

increases; investment down; reduces aggregate expenditure
✓ increases; investment up; increases aggregate expenditure
increases; household income down; reduces aggregate expenditure
reduces; household income down; reduces aggregate expenditure

Add Question Here

Question 46 **Multiple Choice** **0 points** Modify Remove

Question
Which of the following describes the investment multiplier?

Answer

$AE\uparrow \rightarrow$ Firms' earnings $\uparrow \rightarrow$ Investment $\uparrow \rightarrow AE\uparrow$
$AE\downarrow \rightarrow$ Firms' earnings $\downarrow \rightarrow$ Investment $\downarrow \rightarrow AE\downarrow$
$AE\uparrow \rightarrow$ Investment $\uparrow \rightarrow AE\uparrow$
✓ All of the answers are correct.

Add Question Here

Question 47 **Multiple Choice** **0 points** Modify Remove

Question
During the late 1990s, the Dow Jones Industrial Average grew about 120%. This would push _____ by _____ than the original change because of _____.

Answer

the Phillips curve down; less; Okun's law
government expenditure function; down; the money multiplier
aggregate expenditure up; less; the Fisher equation
✓ aggregated expenditure up; more; the investment multiplier

Add Question Here

Question 48 **Multiple Choice** **0 points** Modify Remove

Question
When the housing bubble burst, the aggregate expenditure curve shifted _____, and consumer spending ____ because consumer wealth ___.

Answer

✓ left; fell; fell
left; rose; rose
right; fell; fell
right; rose; rose

Add Question Here

Question 49 **Multiple Choice** **0 points** Modify Remove

Question
According to the Case-Shiller house price index, the average U.S. house price in 2009 was nearly 20 percent lower than a year earlier. Assuming that the average house price was $100,000 in 2009, by about how much would consumption have been expected to have fallen between 2008 and 2009 due to the fall in housing prices?

Answer

$200
$400
✓ $800
$1000

Add Question Here

Question 50 **Multiple Choice** **0 points** Modify Remove

Question
During the financial crisis that began in 2007, banks reduced their amount of loans because:

Answer

the value of borrowers' collateral had fallen.
banks became more conservative.
homeowners began to default on their mortgages.
✓ All of the answers are correct.

Add Question Here

Question 51 **Multiple Choice** **0 points** Modify Remove

Question
Over 2007–2009, the United States experienced its worst financial crisis since the Great Depression due to:

Answer

sharp declines in housing prices.
failure or near-failure of major financial institutions.
breakdown in loan securitization.
✓ All of the answers are correct.

Add Question Here

Question 52 **Multiple Choice** **0 points** Modify Remove

Question
Japan's economic slump was made worse than it might have been because:

Answer
- Japanese consumers borrowed more than they could afford to pay back.
- ✓ banks kept on lending to the construction sector.
- Japanese regulators closed banks too quickly.
- Japanese savers kept their savings in the banks for too long.

Add Question Here

Question 53 **Multiple Choice** **0 points** Modify Remove

Question
During the U.S. financial crisis, firms found it hard to increase their investment spending because:

Answer
- there were not enough high-quality investment projects.
- the government increased taxes on firms.
- ✓ their earnings had fallen and banks were not making new loans
- None of the answers is true.

Add Question Here

Question 54 **Multiple Choice** **0 points** Modify Remove

Question
Which of the following include financial factors that affect aggregate expenditure?

Answer
- an increase in the number of commercial banks
- ✓ the financial systems' amplifying effect of monetary policy actions
- an increase in the value of the Dow Jones Index
- a decrease in the S&P 500 Index

Add Question Here

Question 55 **Multiple Choice** **0 points** Modify Remove

Question
In general, an increase in asset prices _____ aggregate expenditure: output is ____ for any given real interest rate.

Answer
- ✓ raises; higher
- lowers; higher
- raises; lower
- lowers; lower

Add Question Here

Question 56 **Multiple Choice** **0 points** Modify Remove

Question
Empirical evidence about the effect of wealth on consumption expenditures estimate that a $1.00 increase in wealth leads to approximately:

Answer
- a $1.30 increase in consumption.
- a $0.75 decrease in consumption.
- a $0.20 decrease in consumption.
- ✓ a $0.04 increase in consumption.

Add Question Here

Question 57 **Multiple Choice** **0 points** Modify Remove

Question
Asset prices affect aggregate expenditure mainly through changes in:

Answer
- ✓ consumption and investment.
- net exports.
- government purchases.
- government regulation.

Add Question Here

Question 58 **Multiple Choice** **0 points** Modify Remove

Question
When stock prices increase, raising funds through stock issues becomes ____, thereby _____ firms to undertake new investment projects.

Answer
- more expensive; encouraging
- more expensive; discouraging
- cheaper; discouraging
- ✓ cheaper; encouraging

Add Question Here

Question 59 **Multiple Choice** **0 points** Modify Remove

Question
An increase in asset prices _____ collateral and net worth, making banks more willing to lend, thereby leading to _____ investment.

Answer
- ✓ raises; higher
- raises; lower
- lowers; higher
- lowers; lower

Add Question Here

Question 60 **Multiple Choice** **0 points** Modify Remove

Question
Which of the following are reasons why banks might change their lending policies?

Answer
- ✓ risk perception
- changes in weather
- an increase in the price of oil
- a decrease in the price of raw materials

Add Question Here

Question 61 **Multiple Choice** **0 points** Modify Remove

Question
Which of the following statements about expenditure shocks originated in the financial system and its effects on recent U.S. recessions is true?

Answer
- The 2007–2009 financial crisis had only a mild effect on the U.S. economy.
- The savings and loans crisis of the 1980s had no effect on aggregate expenditure.
- ✓ Falling stock prices in 2001 contributed to the 2001–2002 recession.
- As a consequence of the 2007–2009 financial crisis, real GDP increased by 5 percent in 2008.

Add Question Here

Question 62 **Multiple Choice** **0 points** Modify Remove

Question
The investment multiplier concept is based on the feedback between:

Answer
- firms' earnings and consumption.
- firms' cash flows and investment.
- ✓ firms' earnings and investment.
- firms' cash flows and consumption.

Add Question Here

Question 63 **Multiple Choice** **0 points** Modify Remove

Question
The impact of changes in monetary policy on the real economy is called:

Answer
- volatility.
- fiscal stimuli.
- ✓ the money transmission mechanism.
- the monetary base.

Add Question Here

Question 64 **Multiple Choice** **0 points** Modify Remove

Question
The monetary transmission mechanism can be summarized by which of the following?

Answer
- Federal funds rate $\uparrow \Rightarrow$ Longer-term interest rates $\uparrow \Rightarrow$ Investment $\downarrow \Rightarrow AE \downarrow$
- ✓ Federal funds rate $\uparrow \Rightarrow$ Exchange rate $\uparrow \Rightarrow$ Net exports $\downarrow \Rightarrow AE \downarrow$
- Federal funds rate $\downarrow \Rightarrow$ Moral hazard $\downarrow \Rightarrow$ Investment $\uparrow \Rightarrow AE \downarrow$
- All of the answers are correct.

Add Question Here

Question 65 **Multiple Choice** **0 points** Modify Remove

Question
The monetary transmission mechanism can be summarized by which of the following?

Answer
- Federal funds rate $\uparrow \Rightarrow$ Longer-term interest rates $\uparrow \Rightarrow$ Savings $\uparrow \Rightarrow AE \uparrow$
- Federal funds rate $\uparrow \Rightarrow$ Exchange rate $\downarrow \Rightarrow$ Net exports $\uparrow \Rightarrow AE \uparrow$
- ✓ Federal funds rate $\downarrow \Rightarrow$ Moral hazard $\downarrow \Rightarrow$ Investment $\uparrow \Rightarrow AE \uparrow$
- None of the answers are correct.

Add Question Here

Question 66 **Multiple Choice** **0 points** Modify Remove

Question
The monetary transmission mechanism can be summarized by which of the following?

Answer
- ✓ Federal funds rate $\downarrow \Rightarrow$ Wealth $\uparrow \Rightarrow$ Consumption $\uparrow \Rightarrow AE \uparrow$
- Federal funds rate $\uparrow \Rightarrow$ Longer-term interest rates $\uparrow \Rightarrow$ Savings $\uparrow \Rightarrow AE \uparrow$
- Federal funds rate $\uparrow \Rightarrow$ Exchange rate $\downarrow \Rightarrow$ Net exports $\uparrow \Rightarrow AE \uparrow$
- Federal funds rate $\downarrow \Rightarrow$ Moral hazard $\downarrow \Rightarrow$ Investment $\uparrow \Rightarrow AE \downarrow$

Add Question Here

Question 67 **Multiple Choice** **0 points** Modify Remove

Question
When the Fed increases the federal funds target rate:
I. it reduces the present value of earnings on assets.
II. the dollar appreciates.
III. it increases bank lending.

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

Add Question Here

Question 68 **Multiple Choice** **0 points** Modify Remove

Question
When the Fed increases the federal funds target rate:
I. it increases consumers' wealth.
II. the dollar depreciates.
III. it decreases bank lending.

Answer
- I and II
- I, II, and III
- II and III
- ✓ None of the answers are correct.

Add Question Here

Question 69 **Multiple Choice** **0 points** Modify Remove

Question
When the Fed increases the federal funds target rate:
I. it increases the asymmetric information problem.
II. asset prices fall.
III. firms invest less in new capital.

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

Add Question Here

Question 70 **Multiple Choice** **0 points** Modify Remove

Question
A lesson we get from studying the monetary transmission mechanism is that:

Answer
- monetary policy only impacts bank lending.
- fiscal policy affects expenditures through many different channels.
- ✓ monetary policy affects expenditures through many different channels.
- the monetary policy impacts all sectors of the economy the same.

Add Question Here

Question 71 **Multiple Choice** **0 points** Modify Remove

Question
In an economic boom firms sell more output, which allows them to _____; this effect _____ the boom and is called the _____ multiplier.

Answer
- sell more stock; reduces; savings
- ✓ finance investment more easily; magnifies; investment
- buy more bonds; magnifies; instrument
- write off more on their taxes; magnifies; simple tax

Add Question Here

Question 72 **Multiple Choice** **0 points** Modify Remove

Question
According to a 1994 paper by Mark Gertler and Simon Gilchrist, monetary policy has:

Answer
- ✓ a bigger impact on smaller firms than larger ones.
- a bigger impact on larger firms than smaller ones.
- no impact on large firms.
- the same impact on small and large firms.

Add Question Here

Question 73 **Multiple Choice** **0 points** Modify Remove

Question
According to a 1994 paper by Mark Gertler and Simon Gilchrist, tight monetary policy has _____ because _____.

Answer
- ✓ a bigger impact on smaller firms than larger ones; of moral hazard and adverse selection
- a bigger impact on larger firms than smaller ones; large firms have less access to bank loans
- no impact on large firms; they can always issue short term bonds
- the impact on small and large firms; neither type of firms borrow from banks

Add Question Here

Question 74 **Multiple Choice** **0 points** Modify Remove

Question
In a paper that investigated the impacts of monetary tightening on small- and large-firm inventories, Mark Gertler and Simon Gilchrist found that for large firms _____ and for small firms _____.

Answer
- short-term debt rose and then fell; inventories fell
- inventories did not change significantly; short-term debt fell
- inventories did not change significantly; inventories fell
- ✓ All of the answers are correct.

Add Question Here

Question 75 **Multiple Choice** **0 points** Modify Remove

Question
The monetary transmission mechanism shows:

Answer
- ✓ how changes in the federal funds rate affect output.
- how increases in reserve requirements affect loans.
- how the Fed conducts open-market operations.
- how changes in the money supply affect inflation.

Add Question Here

Question 76 **Multiple Choice** **0 points** Modify Remove

Question
If the Fed was concerned about the quality of borrowers, it would _____ interest rates to alleviate the problem of _____.

Answer
- increase; subprime lending
- increase; inflation
- ✓ reduce; adverse selection
- reduce; a credit crunch

Add Question Here

Question 77 **Multiple Choice** **0 points** Modify Remove

Question
Economists Mark Gertler and Simon Gilchrist tested the theory that _____ is a bigger problem for small firms than for large firms by _____.

Answer
- inflation; measuring how quickly prices responded to increases in the money supply
- hysteresis; testing how sticky wages were to collective bargaining agreements
- moral hazard; comparing default rates of small firms versus those of large firms
- ✓ asymmetric information; examining how inventories responded to interest rate increases

Add Question Here

Question 78 **Multiple Choice** **0 points** Modify Remove

Question
Consider the monetary transmission mechanism. When the federal funds rate decreases:

Answer
- longer-term interest rates increase.
- asset prices, like stock prices, decline.
- ✓ the exchange rate depreciates.
- net exports decrease.

Add Question Here

Question 79 **Multiple Choice** **0 points** Modify Remove

Question
Consider the monetary transmission mechanism. When the federal funds rate decreases:

Answer
- ✓ capital outflows increase.
- capital inflows are not affected.
- the exchange rate appreciates.
- net exports decrease.

Add Question Here

Question 80 **Multiple Choice** **0 points** Modify Remove

Question
Consider the monetary transmission mechanism. When the federal funds rate increases:

Answer
- asymmetric information problems are reduced.
- ✓ the exchange rate increases.
- bank lending increases.
- capital inflows decrease.

Add Question Here

Question 81 **Multiple Choice** **0 points** Modify Remove

Question
Consider the monetary transmission mechanism. When the federal funds rate increases:

Answer
- asymmetric information problems are reduced.
- ✓ the exchange rate increases.
- bank lending increases.
- capital inflows decrease.

Add Question Here

Question 82 **Multiple Choice** **0 points** Modify Remove

Question
The monetary transmission mechanism affects aggregate expenditure through _____ and it affects _____.

Answer
- only one channel; all sectors of the economy equally
- ✓ many channels; some sectors of the economy more than others
- only one channel; some sectors of the economy more than others
- many channels; all sectors of the economy equally

Add Question Here

Question 83 **Multiple Choice** **0 points** Modify Remove

Question
The interval between changes in the federal funds rate and impact on the real economy is(are) called:

Answer
- the monetary wait.
- the interest rate time differential.
- ✓ time lags.
- Okun's law.

Add Question Here

Question 84 **Multiple Choice** **0 points** Modify Remove

Question
Generally, monetary policy first impacts _____ and then _____.

Answer
- unemployment; output
- ✓ output; inflation
- inflation; interest rates
- net exports; exchange rates

Add Question Here

Question 85 **Multiple Choice** **0 points** Modify Remove

Question
Changes in monetary policy first impact:

Answer
- output.
- ✓ financial markets.
- inflation.
- unemployment.

Add Question Here

Question 86 **Multiple Choice** **0 points** Modify Remove

Question
One reason that monetary policy may take some time to impact the *AE* curves is that:

Answer
- ✓ firm' investments take time to plan and implement.
- consumers are completely insensitive to interest rate changes.
- the federal government must assess interest rate changes.
- it takes time for checks to be mailed to households.

Add Question Here

Question 87 **Multiple Choice** **0 points** Modify Remove

Question
The *AE* lag associated with the monetary transmission mechanism arises from:

Answer
- firms' planning possible new investments.
- changes in stock prices, which cause firms to rethink building plans.
- revaluation of foreign suppliers when exchange rates change.
- ✓ All of the answers are correct.

Add Question Here

Question 88 **Multiple Choice** **0 points** Modify Remove

Question
The *AE* lag associated with the monetary transmission mechanism arises from:

Answer
- firms' pricing decisions.
- adaptive inflation expectations.
- ✓ changes in stock prices, which cause firms to rethink building plans.
- All of the answers are correct.

Add Question Here

Question 89 **Multiple Choice** **0 points** Modify Remove

Question
The inflation lag associated with monetary policy is quantified through the:

Answer
- aggregate expenditure curve.
- ✓ Phillips curve.
- money demand curve.
- ex poste real interest rate.

Add Question Here

Question 90 **Multiple Choice** **0 points** Modify Remove

Question
When the Fed lowers the federal funds rate, the impact on inflation lags output because:

Answer
- it is difficult for firms to figure out what is happening to demand.
- they all must convene and discuss how much to raise prices.
- there is no effect of monetary policy on prices.
- ✓ firms fear they will lose market share when they raise their prices.

Add Question Here

Question 91 **Multiple Choice** **0 points** Modify Remove

Question
According to a study by Christina Romer and David Romer, the maximum impact of a monetary tightening:

Answer
- ✓ took about one year longer for inflation than output.
- took about the same amount of time for inflation and output.
- took about eighteen months longer for output than inflation.
- was almost nothing for inflation and was felt about two years later for output.

Add Question Here

Question 92 **Multiple Choice** **0 points** Modify Remove

Question
Between September 2007 and October 2008, the Fed made a concerted effort to prevent a deep recession; it reduced the federal funds rate from 5.25 percent to 1 percent. The Fed was aware of research done by Christina Romer and David Romer and believed that:

Answer
- neither inflation nor output would be affected by this change, which is why they also lent money directly to banks.
- ✓ it would take about 24 months for output and 36 months for inflation to feel the maximum impact of their policy.
- inflation would never be a problem, but that it would have some impact on output.
- it would take about six months for output and inflation to reflect the maximum impact of this policy.

Add Question Here

Question 93 **Multiple Choice** **0 points** Modify Remove

Question
According to research conducted by Christina and David Romer, monetary policy has:

Answer
- ✓ almost no impact on inflation for eighteen months.
- an immediate impact inflation.
- has no impact on inflation.
- has an immediate impact on inflation and no impact on output.

Add Question Here

Question 94 **Multiple Choice** **0 points** Modify Remove

Question
Your parents are growing anxious over the declining state of the economy. They read the paper and see that the Fed has lowered the federal funds rate by 1 percent. They ask you when the economy will start to recover. What do you tell them?

Answer
- "Economic research has found that monetary policy is losing its effectiveness, so we had better wait for a tax rebate."
- "There is very little connection between monetary policy and the real economy, but prices should start to adjust within a year."
- ✓ "Economic research has found that output will begin to recover in about a year, and prices will take about twice as long to adjust."
- "I'm not sure, I majored in Art History, remember?"

Add Question Here

Question 95 **Multiple Choice** **0 points** Modify Remove

Question
The Federal Reserve has announced that it will raise the federal funds rate to slow economic growth and the rate of price increases. When will this change affect output and inflation?

Answer
- Both output and inflation will start to slow almost immediately.
- Inflation will immediately slow as firms scale back their price increases; output will eventually also slow.
- ✓ Output should start to fall within about 18 months, while it will take about twice as long for inflation to start to fall.
- Neither output nor inflation will change because investors anticipate the Fed's moves; only unexpected moves from the Fed can affect the economy.

Add Question Here

Question 96 **Multiple Choice** **0 points** Modify Remove

Question
Which of the following is(are) reasons for why spending takes time to react to a change in financial variables?

Answer
- An exporting firm takes time to produce more if the currency depreciates.
- It takes time for firms to change their investment plans when the real interest rate changes.
- It takes time for households to change their consumption patterns when the real interest rate changes.
- ✓ All of the answers are correct.

Add Question Here

Question 97 **Multiple Choice** **0 points** Modify Remove

Question
Suppose the federal funds rate target is changed by the FOMC. In addition to the aggregate expenditure lag, there are additional lags in the:

Answer
- unemployment curve.
- ✓ Phillips curve.
- inflation curve.
- investment curve.

Add Question Here

Question 98 **Multiple Choice** **0 points** Modify Remove

Question
According to the textbook, monetary policy can take up to a year to affect:

Answer
- output and inflation.
- ✓ output and then another year to affect inflation.
- output, but only a few days to affect inflation.
- inflation, but it usually affects output in less than 4 months.

Add Question Here

Question 99 **Multiple Choice** **0 points** Modify Remove

Question
According to empirical evidence about the time lags in the effects of monetary policy, the *maximum* effect of a monetary policy tightening on output occurs after:

Answer
- 10 to 25 days.
- 34 to 39 months.
- ✓ 22 to 27 months.
- 3 to 4 months.

Add Question Here

Question 100 **Multiple Choice** **0 points** Modify Remove

Question
Monetary policy affects firstly financial variables, like _____ and then it affects aggregate spending.

Answer
- technology
- the unemployment rate
- ✓ asset prices
- the output gap

Add Question Here

Question 101 **Multiple Choice** **0 points** Modify Remove

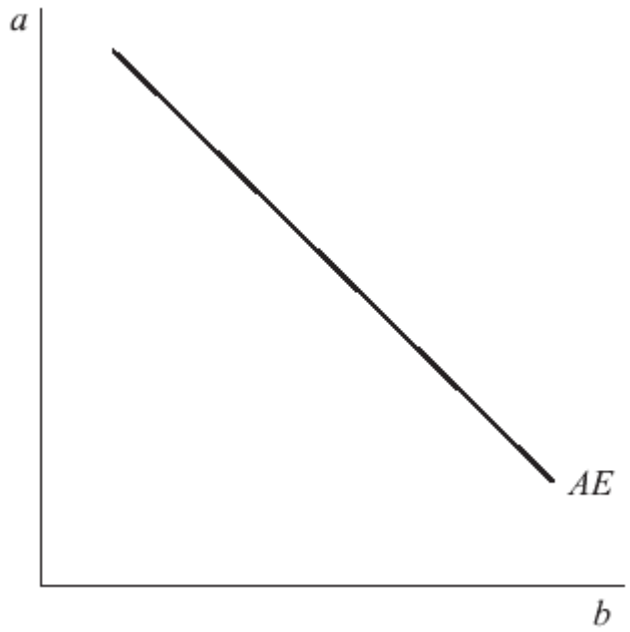
Question
The simple aggregate expenditure model with time lags relates _____ period's real interest rate with _____.

Answer
- the next; current output
- ✓ the previous; current output
- the previous; current inflation
- the current; current output

Add Question Here

Question 102 **Multiple Choice** **0 points** Modify Remove

Question
(Figure 13.4)



In the expenditure model with time lags the axis labeled *a* is _____ and *b* is _____.

Answer
- ✓ the previous period's real interest rate, $r(-1)$; current output, Y
- the current inflation rate, π; the previous period's output, $Y(-1)$
- the previous period's nominal interest rate, $i(-1)$; current output, Y
- the current real interest rate, $i(-1)$; next period's output, $Y(1)$

Add Question Here

Question 103 **Multiple Choice** **0 points** Modify Remove

Question
To capture the _____ found in the data, when we model aggregate expenditure we want to see the relationship between the _____ and _____.

Answer
- monetary policy time lag; current inflation rate; the previous period's real interest rate
- ✓ monetary policy time lag; previous period's real interest rate; current output
- level of inflation; previous inflation rate; current output
- None of the answers are correct.

Add Question Here

Question 104 **Multiple Choice** **0 points** Modify Remove

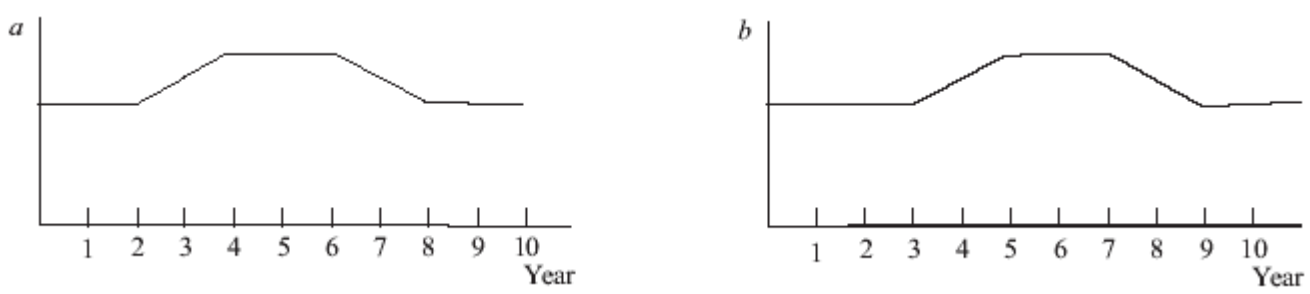
Question
To capture _____ found in the data, when we model the Phillips curve we want to see the relationship between _____ and _____.

Answer
- ✓ monetary policy lags; past output; current inflation
- inflation expectations; current inflation; past inflation
- inflation expectations; current real interest rate; current output
- None of the answers are correct.

Add Question Here

Question 105 **Multiple Choice** **0 points** Modify Remove

Question
Figure 13.5



Reference: Ref 13-3

(Figure 13.5) Given what you know about the impacts of lags associated with monetary policy, and assuming the federal funds rate _____ in year 1, the axis labeled *a* is _____ and the one labeled *b* is _____.

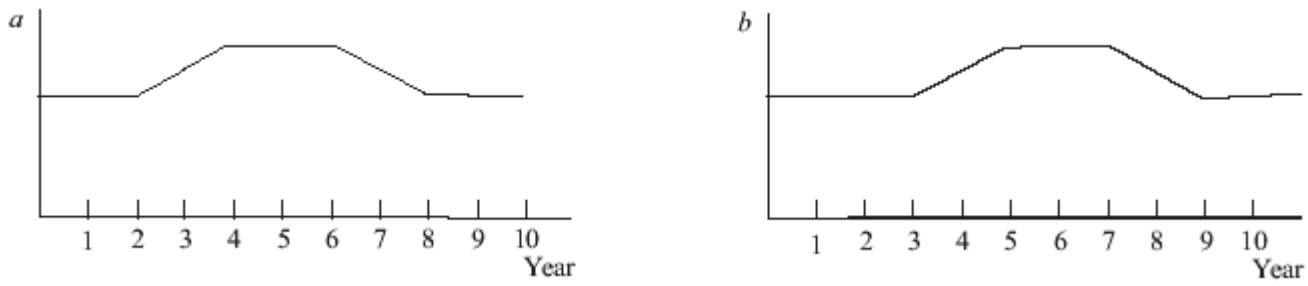
Answer

is lowered; inflation; output
✓ is lowered; output; inflation
is raised; the nominal interest rate; output
remains the same; inflation; unemployment

Add Question Here

Question 106 **Multiple Choice** **0 points** Modify Remove

Question
Figure 13.5



Reference: Ref 13-3

(Figure 13.5) Given what you know about the impacts of lags associated with monetary policy, and assuming the federal funds rate _____ in year 1, the axis labeled *a* is _____ and the one labeled *b* is _____.

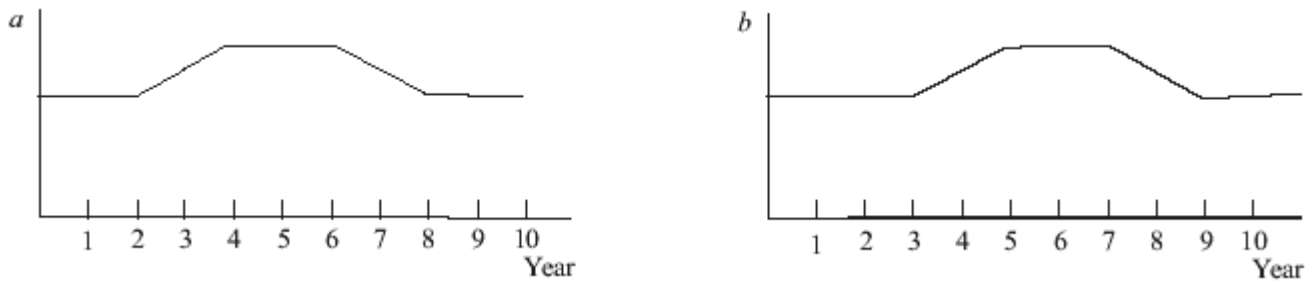
Answer

remains the same; inflation; unemployment
is lowered; inflation; output
is raised; the nominal interest rate; output
✓ None of the answers are correct.

Add Question Here

Question 107 **Multiple Choice** **0 points** Modify Remove

Question
Figure 13.5



Reference: Ref 13-3

(Figure 13.5) If the federal funds rate is _____ in year 1, evidence from research conducted by Christina Romer and David Romer suggests that we label axis *a* _____ and axis *b* _____.

Answer

✓ lowered; output; inflation
raised; inflation; unemployment
raised; output; inflation
lowered; inflation; money supply

Add Question Here

Question 108 **Multiple Choice** **0 points** Modify Remove

Question
Because of lags and the upward sloping _____ curve, a decrease in the federal funds rate in year 1 will cause _____ to rise in year _____.

Answer

Phillips; unemployment; 2
aggregate expenditure; output; 4
✓ Phillips; inflation; 3
Okun's; unemployment; 1

Add Question Here

Question 109 **Multiple Choice** **0 points** Modify Remove

Question
Because of lags and the downward sloping _____ curve, a decrease in the federal funds rate in year 1 will cause _____ to rise in year _____.

Answer

Phillips; inflation; 2
✓ aggregate expenditure; output; 2
aggregate expenditure; output; 4
Okun's; unemployment; 1

Add Question Here

Question 110 **Multiple Choice** **0 points** Modify Remove

Question
According to the money transmission model introduced in Chapter 13, a decrease in the federal funds rate in the year 2013 will cause output to _____ in _____ and inflation to rise in _____.

Answer

✓ rise; 2014; 2015
fall; 2015; 2014
remain unchanged; the future; 2015
There is not enough information provided to answer the question.

Add Question Here

Question 111 **Multiple Choice** **0 points** Modify Remove

Question
Without time lags, correctly devised monetary policy should be able to _____ the effects of a negative expenditure shock by _____.

Answer
- worsen; lowering real interest rates
- reverse; keeping real interest rates
- accelerate; lowering taxes
- ✓ completely eliminate; lowering real interest rates

Add Question Here

Question 112 **Multiple Choice** **0 points** Modify Remove

Question
If there is a positive expenditure shock, with time lags the impact of countercyclical monetary policy can create a(n) _____ after an _____.

Answer
- expansion; economic boom
- ✓ recession; economic boom
- recession; economic contraction
- expansion; economic contraction

Add Question Here

Question 113 **Multiple Choice** **0 points** Modify Remove

Question
If the Fed conducts countercyclical policy during an economic downturn it may cause a(n) _____ because of _____.

Answer
- recession; Engel's Law
- deflation; the Darby effect
- ✓ economic boom; time lags
- recession; rational expectations

Add Question Here

Question 114 **Multiple Choice** **0 points** Modify Remove

Question
The time between a shock and the policy response is called the:

Answer
- outside lag.
- period of adaptation.
- recognition lag.
- ✓ inside lag.

Add Question Here

Question 115 **Multiple Choice** **0 points** Modify Remove

Question
The time between the policy response and the effects on the economy is called the _____ lag.

Answer
- inside
- ✓ outside
- policy
- effectiveness

Add Question Here

Question 116 **Multiple Choice** **0 points** Modify Remove

Question
Fiscal policy is controlled by _____, and it is the cooperation between them that makes the _____ lag so long.

Answer
- ✓ Congress and the president; inside
- Federal Reserve Bank presidents; outside
- Congress and the president; outside
- the FOMC and the president; inside

Add Question Here

Question 117 **Multiple Choice** **0 points** Modify Remove

Question
If there is a positive expenditure shock, the Fed knows that countercyclical monetary policy with time lags will cause a(n) _____, but it is willing to do so to avoid _____.

Answer
- expansion; a natural rate of unemployment
- stock market crash; rational exuberance
- ✓ recession; permanent inflation
- positive output gap; short-term inflation

Add Question Here

Question 118 **Multiple Choice** **0 points** Modify Remove

Question
The _____ is shorter for monetary policy and the _____ is shorter for fiscal policy.

Answer
- outside lag; inside lag
- inside lag; policy lag
- ✓ inside lag; outside lag
- policy lag; recognition lag

Add Question Here

Question 119 **Multiple Choice** **0 points** Modify Remove

Question
In response to the subprime mortgage crisis, the president and Congress _____ while the Fed _____. The federal government's policy has a long _____ and the Fed's is very short.

Answer
- bought houses in foreclosure; left interest rates unchanged; inside lag
- ✓ gave taxpayers a tax rebate; cut interest rates; inside lag
- offered an economic recovery package; cut interest rates; outside lag
- gave taxpayers a tax rebate; bought houses in foreclosure; outside lag

Add Question Here

Question 120 **Multiple Choice** **0 points** Modify Remove

Question
The subprime mortgage crisis became apparent to policymakers in _____ and the president and Congress didn't enact a fiscal stimulus until _____. This is an example of a long _____.

Answer
- ✓ Summer 2007; February 2008; inside lag
- Summer 2007; Fall 2007; outside lag
- January 2008; May 2008; inside lag
- Summer 2007; October 2008; outside lag

Add Question Here

Question 121 **Multiple Choice** **0 points** Modify Remove

Question
Critics of the Fed argue that it should not attempt to offset a positive demand shock by raising interest rates because its policies take effect with a lag and are ineffective. How would you respond to this statement?

Answer
- I agree fully.
- ✓ I disagree because if the Fed does not respond, then the economy might move to a permanently higher level of inflation.
- I disagree because the Fed can offset a shock to output immediately even though inflation responds with a lag.
- I disagree because the Fed would respond to a positive demand shock by lowering interest rates, not by raising them.

Add Question Here

Question 122 **Multiple Choice** **0 points** Modify Remove

Question
During the 2007–2009 recession, the Federal Reserve was hampered in its ability to respond to the economic downturn after December of 2008 because:

Answer
- Chairman Ben Bernanke had not yet been reappointed by President Obama.
- it did not agree with many economists that the economy was in a downturn.
- Congress had not given the Fed the authority to intervene in the markets.
- ✓ it had already reduced interest rates to near zero and couldn't drive rates lower.

Add Question Here

Question 123 **Multiple Choice** **0 points** Modify Remove

Question
The _____ lag is the time it takes policymakers to recognize a shock and respond to it.

Answer
- recognition
- ✓ inside
- outside
- policy effectiveness

Add Question Here

Question 124 **Multiple Choice** **0 points** Modify Remove

Question
The ____ lag is the time it takes the policy response to affect the economy.

Answer
- stabilization
- inside
- ✓ outside
- recognition

Add Question Here

Question 125 **Multiple Choice** **0 points** Modify Remove

Question
When considering monetary policy, the inside lag is:

Answer
- as lengthy as the outside lag.
- ✓ shorter than the outside lag.
- lengthier than the outside lag.
- 3 months.

Add Question Here

Question 126 **Multiple Choice** **0 points** Modify Remove

Question
The inside lag for monetary policy is _____ than the inside lag for fiscal policy. The outside lag for monetary policy is _____ than the outside lag for fiscal policy.

Answer
- shorter; shorter
- ✓ shorter; lengthier
- lengthier; shorter
- lengthier; lengthier

Add Question Here

Question 127 **Multiple Choice** **0 points** Modify Remove

Question
Which of the following statements about fiscal policy is true?

Answer
Fiscal policy was not used as a stabilization tool during the most recent recession.
✓ The outside lag for fiscal policy is relatively short.
It usually takes more time to implement monetary policy than to implement fiscal policy.
The conduct of fiscal policy focuses mostly on affecting the deferral funds rate.

Add Question Here

Question 128 **Multiple Choice** **0 points** Modify Remove

Question
Consider a disinflation and assume that there are time lags in the implementation of monetary policy. Output returns to potential _____ the interest rate returned to its initial level and inflation decreases ____ period(s) after the decrease in output.

Answer
✓ 1 period after; 1
1 period after; 3
in the same period in which; 1
in the same period in which; 3

Add Question Here

Question 129 **Multiple Choice** **0 points** Modify Remove

Question
Which of the following actions are considered instruments of fiscal policy?

Answer
✓ a decrease in government spending
changes in the federal funds rate
an increase in the money supply
a decrease in the monetary base engineered by the Federal Reserve

Add Question Here

Question 130 **Multiple Choice** **0 points** Modify Remove

Question
Which of the following actions are considered instruments of monetary policy?

Answer
a decrease in government spending
✓ changes in the federal funds rate
an increase in income taxes
a decrease in labor income taxes

Add Question Here

OK