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Name TestBanks Chapter 15 Multiple-Choice Questions
Description Question pool for TestBanks Chapter 15 Multiple-Choice Questions
Instructions

Modify

Add Question Here

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

Question
Which of the following is *not* a stated goal of the Fed?

Answer
- maximum sustainable output growth
- stable prices
- ✓ moderate short-term interest rates
- moderate long-term interest rates

Add Question Here

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

Question
If the Fed keeps prices stable, it will also _____, as given by the _____.

Answer
- reduce unemployment to zero; Phillips curve
- ✓ maintain moderate long-term nominal interest rates; Fisher equation
- consistently maintain output above its potential; Phillips curve
- reduce inflation to zero; ex ante real interest rate

Add Question Here

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

Question
Arguments in favor of a zero inflation rate include the fact that it:

Answer
- ✓ reduces price variability.
- reduces the incentive to save.
- reduces the real wage.
- lowers the real interest rate.

Add Question Here

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

Question
During the transition to a zero inflation rate:

Answer
- there would be a permanent real interest rate increase.
- long-run savings would decline.
- unemployment would fall.
- ✓ real interest rates would rise temporarily.

Add Question Here

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

Question
Because most economist believe low inflation is _____, they would choose to _____.

Answer
- ✓ a minor nuisance; live with a little inflation
- catastrophic; reduce unemployment rate to zero
- problematic; reduce the Fed's power to control interest rates
- a “non-problem”; let the Federal government control it

Add Question Here

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

Question
When inflation is very low, say 2 percent or so, it:

Answer
- pushes nominal wages down.
- ✓ causes small price distortions.
- raises nominal interest rates.
- reduces the minimum real interest rate to zero.

Add Question Here

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

Question
With zero inflation, the minimum real interest rate:

Answer
- ✓ is 0 percent.
- equals the nominal interest rate if it is greater than zero.
- can never rise above 0 percent.
- is impossible to determine.

Add Question Here

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

Question
If the inflation rate is zero, the Fed:

Answer
- has complete control over the economy during economic fluctuations.
- no longer is concerned about unemployment.
- ✓ cannot push the real interest rate below 0 percent.
- loses complete control over monetary policy.

Add Question Here

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

Question
Japan experienced a(n) _____ during the period _____.

Answer
- economic boom; 1999–2006
- hyperinflation; 2001–2002
- real estate boom; 2002–2003
- ✓ liquidity trap; 1999–2006.

Add Question Here

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

Question
In 1997, _____ advocated for a zero inflation rate.

Answer
- Bill Clinton
- ✓ Martin Feldstein
- Ben Bernanke
- Alan Greenspan

Add Question Here

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

Question
Many economists advocate for low, but stable inflation to:

Answer
- avoid liquidity traps.
- avoid the costs of disinflation.
- allow the Fed to reduce real inflation rates below zero.
- ✓ All of the answers are correct.

Add Question Here

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

Question
The Bank of England has an explicit inflation target of:

Answer
- 2 percent.
- ✓ 0 percent.
- 5 percent.
- It doesn't have an inflation target.

Add Question Here

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

Question
The U.S. Federal Reserve has an explicit inflation target of:

Answer
- 0 percent.
- 2 percent.
- 5 percent.
- ✓ It doesn't have an explicit inflation target.

Add Question Here

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

Question
An inflation target is _____, while an interest rate target _____.

Answer
- ✓ a policy goal; is a policy instrument
- a policy instrument; is a policy goal
- impossible to attain; is feasible
- set by *every* central bank; only set by the Fed

Add Question Here

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

Question
The Bank of England has a(n) _____ while the U.S. Fed has a(n) _____.

Answer
- ✓ explicit inflation target; implicit inflation target
- implicit inflation target; explicit unemployment target
- zero economic growth target; zero inflation target
- zero unemployment rate target; explicit inflation target.

Add Question Here

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

Question
Which of the following countries does *not* have an explicit inflation target?

Answer
- England
- the Eurozone
- ✓ the United States
- Norway

Add Question Here

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

Question
Which of the following countries does *not* have an explicit inflation target?

Answer
- Canada
- England
- Norway
- ✓ All of these countries have explicit inflation targets.

Add Question Here

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

Question
Which of the following countries has an implicit inflation target?

Answer
- Canada
- England
- Norway
- ✓ None of these countries has an implicit inflation target.

Add Question Here

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

Question
Evidence that the U.S. Fed has a(n) _____ target inflation rate of _____ comes from _____.

Answer
- explicit; 1–2 percent; announcements during congressional hearings
- inherent; zero; obscure academic research by Fed Chairman Ben Bernanke
- ✓ implicit; 1–2 percent; speeches by Fed Chairman Ben Bernanke
- clear; 2–3 percent; the minutes from meetings of the FOMC

Add Question Here

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

Question
When policymakers formally announce a target inflation rate, it is called a(n)

Answer
- "obvious target."
- ✓ "explicit target."
- "grounded target."
- "interest rate target."

Add Question Here

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

Question
Following a sustained period of _____, economists revised their view on the acceptable level of inflation to _____.

Answer
- high inflation; 0 percent
- ✓ low inflation; 2 percent
- moderate inflation; 4 percent
- no inflation; 2 percent

Add Question Here

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

Question
Economists _____ the argument that inflation should be near ____ to avoid a liquidity trap.

Answer
- accept; zero
- accept; 4 percent
- reject; zero
- ✓ reject; 4 percent

Add Question Here

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

Question
Many observers believe that the Fed has an implicit inflation target of about ____ percent based on statements by _____; some officials believe that ___ is too high.

Answer
- 2 percent; Alan Greenspan; 4 percent
- ✓ 1–2 percent; Ben Bernanke; 4 percent
- 4 percent; Olivier Blanchard; 6 percent
- 0 percent; Ben Bernanke; 2 percent

Add Question Here

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

Question
Which of the following statements about the Fed's mandate to seek “stable prices” is true?

Answer
- The precise meaning of “stable prices” is an inflation rate equal to 4 percent.
- “Stable prices” means an average inflation rate equal to zero.
- ✓ Some economists argue that this could be interpreted as a small positive inflation rate.
- It means that the Fed cares only about stabilizing output.

Add Question Here

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

Question
Supporters of a zero inflation rate argue that:

Answer
- inflation does not affect economic growth.
- ✓ a zero inflation rate reduces distortions in the economy.
- inflation does not affect taxation of capital gains or interest income.
- it is quite risky in terms of decreased output to aim for a zero inflation target.

Add Question Here

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

Question
Supporters of a small positive inflation rate argue that:

Answer
- disinflation is costly in terms of output and unemployment.
- a small positive inflation rate reduces the risk of falling into a liquidity trap.
- inflation discourages saving through its interaction with the tax system.
- ✓ Both a and b are correct.

Add Question Here

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

Question
Many central banks state an explicit inflation target. Most of them have chosen a _____ inflation rate as their target.

Answer
- ✓ positive and close to 2 percent
- zero
- positive and close to 4 percent
- positive and close to 10 percent

Add Question Here

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

Question
The Federal Reserve has a(n) _____ inflation target of about ____ percent.

Answer
- explicit; 1 to 2
- explicit; 4
- implicit; 4
- ✓ implicit; 1 to 2

Add Question Here

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

Question
When inflation is unstable:

Answer
- firms have a hard time adjusting their prices to keep in line with other firms.
- there is increased ex post real interest rate risk.
- firms are more likely to make pricing mistakes
- ✓ All of the answers are correct.

Add Question Here

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

Question
The Fed *cannot:*

Answer
- control short-term output.
- reduce inflation in the short run.
- ✓ control long-term economic growth.
- change the short-run real interest rate.

Add Question Here

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

Question
By reducing fluctuations in the output gap, the Fed also reduces _____.

Answer
- ✓ unemployment fluctuations
- the natural rate of unemployment
- the ex post nominal interest rate
- potential output

Add Question Here

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

Question
The economist _____ argued that the business cycle is not costly because _____.

Answer
Milton Friedman; stable monetary policy can offset the business cycle
Martin Feldstein; modest disinflation raises output significantly
✓ Robert Lucas; consumers do not suffer significantly from output fluctuations
John Taylor; fiscal policy can offset business cycles

Add Question Here

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

Question
Critics of Robert Lucas argue that the business cycle is costly because:

Answer
✓ inflation affects unemployed individuals more harshly than those with jobs.
the gains from swings in the business cycle are larger than the losses from these swings.
keeping inflation low would increase potential output.
economic fluctuations make fiscal policy less effective than otherwise.

Add Question Here

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

Question
The recession that began in December of 2007 caused unemployment to rise by about ____ percentage points, thus ____ Robert Lucas's point that the business cycles are ____.

Answer
2; supporting; very costly
2; refuting; symmetric
5; supporting; not very costly
✓ 5; refuting; symmetric

Add Question Here

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

Question
Which of the following statements about the Federal Reserve mandate of seeking “maximum sustainable output growth” and “maximum employment” is true?

Answer
According to Okun's law, the Fed can stabilize output but not unemployment in the short run.
A successful monetary policy to stabilize output affects potential output.
✓ Stabilizing output is consistent with stabilizing unemployment.
According to the monetary neutrality principle, the Fed can affect output and unemployment in the long run.

Add Question Here

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

Question
When central banks mitigate the business cycle, output falls ____ during recessions and rises _____ during expansions.

Answer
more; less
more; more
✓ less; less
less; more

Add Question Here

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

Question
In the short run, central banks often have to choose between stabilizing ____ and _____, as these goals can conflict.

Answer
consumption expenditures; unemployment
output; investment
investment; unemployment
✓ inflation; output

Add Question Here

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

Question
It is difficult for central banks to choose between stabilizing inflation and stabilizing output in the short run because:

Answer
it is difficult to quantify the effects of inflation.
it is not clear if inflation or output fluctuations are more harmful to the economy.
it is difficult to quantify the effects of the business cycle.
✓ All of the answers are correct.

Add Question Here

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

Question
In the short run, if the Federal Reserve decides to stabilize output:

Answer
✓ it can destabilize inflation.
it affects potential output.
it destabilizes unemployment.
All of the answers are correct.

Add Question Here

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

Question
When an economy experiences an economic boom, the Fed would _____ interest rates to _____.

Answer

lower; reduce unemployment
✓ raise; reduce inflation
raise; increase employment
lower; increase employment

Add Question Here

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

Question
During a recession, the Fed would _____ interest rates to _____.

Answer

raise; reduce inflation
✓ lower; reduce unemployment
raise; increase employment
lower; reduce employment

Add Question Here

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

Question
The job of the Fed, according to former(present) Fed Chair _____ is to _____ to push the economy back to its long-run levels.

Answer

✓ William McChesney Martin; “lean against the wind”
Ben Bernanke; “always tack”
Paul Volcker; follow the “true wind”
Alan Greenspan; “maintain the apparent wind”

Add Question Here

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

Question
According to the Taylor rule, the Fed should _____ interest rates when inflation rises about its target rate and _____ interest rates when output falls below its potential.

Answer

not change; raise
not change; lower
lower; not change
✓ increase; lower

Add Question Here

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

Question
Using the notation in the text, the Taylor rule is given by:

Answer

✓ $r = r^n + a_Y\tilde{Y} + a_\pi(\pi - \pi^T)$.
$r = r^n + a_Y\tilde{Y} + a_\pi\pi$.
$r = r^n + a_\pi(\pi - \pi^T)$.
$r = r^n - a_Y\tilde{Y} - a_\pi(\pi - \pi^T)$.

Add Question Here

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

Question
According the the Taylor rule, the _____ is _____ related to the output gap and _____ related to the inflation gap.

Answer

nominal interest rate; negatively; positively
ex ante real interest rate; positively; not
✓ ex ante real interest rate; positively; positively
ex post nominal interest rate; not; positively

Add Question Here

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

Question
In the Taylor formulation $r = r^n + a_Y\tilde{Y} + a_\pi(\pi - \pi^T)$ if $a_Y > a_\pi$, then the:

Answer

Fed's preferences dictate that the inflation is not important.
✓ Fed cares more about the output gap than the inflation gap.
Fed would prefer to give up output to reduce inflation.
There is not enough information provided to answer the question.

Add Question Here

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

Question
In the Taylor rule, the “neutral real interest rate” is the interest rate, where:

Answer

inflation is equal to zero.
the natural rate of unemployment is zero.
✓ output equals its potential.
the economy is in a liquidity trap.

Add Question Here

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

Question

Consider the following Taylor rule, $r = 1.5 + 1.5\tilde{Y} + 1.5(\pi - \pi^T)$. Suppose the target rate of inflation is 2 percent, the current rate of inflation rate is 4 percent, and the output gap is 2 percent. If the inflation rate falls to 3 percent, what is the change in the Fed's policy real interest rate?

Answer

1.5 percent
✓ –1.5 percent
–6 percent
7.5 percent

Add Question Here

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

Question

Suppose the target rate of inflation is 2 percent, the inflation rate is 4 percent, the output gap is 2 percent, the unemployment gap is 1 percent, the neutral real interest rate is 1.5, and the Taylor rule coefficients are a_Y = .5 and a_π = 1. According to the Taylor rule, what real interest rate should the Fed choose?

Answer

7.5 percent
0.5 percent
4 percent
✓ 4.5 percent

Add Question Here

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

Question

The Taylor rule is:

Answer

what the FOMC uses to choose interest rates.
an exact rule of interest rate behavior.
is a poor predictor of Fed interest rate policy.
✓ not what the FOMC consciously uses to adjust interest rates.

Add Question Here

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

Question

The Fed closely followed the Taylor rule while ____ was Fed chairman but deviated from the rule while ____ was chairman.

Answer

William McChesney Martin; Paul Volcker
Paul Volcker; Alan Greenspan
✓ Alan Greenspan; Ben Bernanke
The Fed has always followed the Taylor rule.

Add Question Here

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

Question

According to the Taylor rule, when the output gap is positive:

Answer

✓ the Fed should raise the federal funds rate target.
the Fed should lower the federal funds rate target.
the Fed should leave the federal funds rate target unchanged.
the Fed should do any of the above, depending on the size of the output gap.

Add Question Here

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

Question

According to the Taylor rule, when the inflation gap is negative:

Answer

the Fed should raise the federal funds rate target.
✓ the Fed should lower the federal funds rate target.
the Fed should leave the federal funds rate target unchanged.
the Fed should take any of these actions, depending on the size of the inflation gap.

Add Question Here

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

Question

Assume the neutral real interest rate is 1.5 percent, the output gap is 4 percent, the inflation gap is 3 percent and both coefficients on the inflation and output gap are 0.5. According to this information, the ex ante real interest rate suggested by the Taylor rule equals:

Answer

5.50 percent.
5.25 percent.
✓ 5.00 percent.
4.75 percent.

Add Question Here

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

Question

Assume the neutral real interest rate is 1.5 percent, the output gap is –2 percent, the inflation gap is –1 percent and both coefficients on the inflation and output gap are 0.5. According to this information, the ex ante real interest rate suggested by the Taylor rule equals:

Answer

1.50 percent.
2.25 percent.
0.50 percent.
✓ zero.

Add Question Here

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

Question
Suppose both the inflation and output gap are zero. According to the Taylor rule the ex ante real interest rate should be equal to:

Answer
- the prime interest rate.
- the interest rate on a 1-year U.S. Treasury bond.
- ✓ the neutral real interest rate.
- the discount rate.

Add Question Here

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

Question
In the Taylor rule, $r = r^n + a_Y\tilde{Y} + a_\pi(\pi - \pi^T)$,

Answer
- ✓ a_Y and a_π can change.
- $a_Y = a_\pi$ always.
- $a_Y = 1.0$ and $a_\pi = 0.5$ always.
- a_Y and a_π are the same in every country.

Add Question Here

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

Question
In the Taylor rule, $r = r^n + a_Y\tilde{Y} + a_\pi(\pi - \pi^T)$,

Answer
- ✓ a_Y and a_π can change.
- $a_Y = a_\pi$ always.
- $a_Y > 0$ and $a_\pi < 0$.
- $0 < a_Y < 1$ and $a_\pi = 1 - a_Y$ always.

Add Question Here

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

Question
Suppose the target rate of inflation is 2 percent, the economy's output gap is zero, the neutral real interest rate is 2.5 percent, and the Taylor rule coefficients are $a_Y = 0.5$ and $a_\pi = 0.5$. According to the Taylor rule, what real interest rate should the Fed choose?

Answer
- 2.5 percent
- 2 percent
- 3.5 percent
- ✓ There is not enough information provided to answer the question.

Add Question Here

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

Question
Suppose the target rate of inflation is 2 percent, the economy's output gap is positive, the neutral real interest rate is 2.5 percent, and the Taylor rule coefficients are $a_Y = 0.5$ and $a_\pi = 0.5$. According to the Taylor rule, what real interest rate should the Fed choose?

Answer
- 2.5 percent
- 2 percent
- 3.5 percent
- ✓ There is not enough information provided to answer the question.

Add Question Here

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

Question
Which of the following Taylor rules is *most* aggressive at attacking inflation?

Answer
- ✓ $r = 1.0 + 2.5\tilde{Y} + 1.5(\pi - \pi^T)$
- $r = 1.0 + 0.5(\pi - \pi^T)$
- $r = 1.5 + 0.5\tilde{Y} + 1.0(\pi - \pi^T)$
- There is not enough information provided to answer the question.

Add Question Here

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

Question
Which of the following Taylor rules is *most* aggressive at attacking the output gap?

Answer
- $r = 1.0 + 0.75\tilde{Y} + 2.5(\pi - \pi^T)$
- ✓ $r = 1.0 + 2.5\tilde{Y} + 1.5(\pi - \pi^T)$
- $r = 3.5 + 0.5\tilde{Y} + 1.0(\pi - \pi^T)$
- There is not enough information provided to answer the question.

Add Question Here

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

Question
Which of the following Taylor rules is the most aggressive?

Answer

$r = 2.0 + 0.75\tilde{Y} + 0.5(\pi - \pi^T)$

✓ $r = 1.0 + 1.5\tilde{Y} + 1.5(\pi - \pi^T)$

$r = 3.5 + 0.5\tilde{Y} + 1.0(\pi - \pi^T)$

There is not enough information provided to answer the question.

Add Question Here

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

Question

Consider the two Taylor rules: Rule 1: $r = 1.0 + 1.5\tilde{Y} + 0.5(\pi - \pi^T)$; and Rule 2: $r = 1.0 + 0.5\tilde{Y} + 1.5(\pi - \pi^T)$. If you discover that the European Central Bank is more anti-inflation than the Federal Reserve, which of these rules would the Fed follow?

Answer

✓ Rule 1

Rule 2

Both of these rules are the same.

There is not enough information provided to answer the question.

Add Question Here

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

Question

Consider the two Taylor rules: Rule 1: $r = 1.0 + 1.0\tilde{Y} + 1.0(\pi - \pi^T)$; and Rule 2: $r = 1.0 + 0.5\tilde{Y} + 0.5(\pi - \pi^T)$. Which rule would put the economy into a deeper, but shorter, recession with an adverse supply shock?

Answer

✓ Rule 1

Rule 2

Both of these rules are the same.

There is not enough information provided to answer the question.

Add Question Here

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

Question

Using the Taylor rule, if the unemployment rate is unchanged while the natural rate of unemployment is rising, the Fed should:

Answer

lower interest rates.

✓ increase interest rates.

leave interest rates alone.

There is not enough information provided to answer the question.

Add Question Here

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

Question

Under the Taylor Rule, if the Fed decides to be more concerned about fighting inflation than a recession, it would adopt a _____ Taylor model, while if it were more concerned about offsetting a recession and less concerned about fighting inflation, it would adopt a ____ Taylor model

Answer

more aggressive; more aggressive

✓ more aggressive; less aggressive

less aggressive; more aggressive

less aggressive; less aggressive

Add Question Here

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

Question

In the Taylor rule, if the Fed wishes to focus on stabilizing output, it should ____ the coefficient on the output gap, while if it wishes to focus on stabilizing inflation, it should ____ the coefficient on the inflation gap.

Answer

increase; decrease.

decrease; decrease.

decrease; increase.

✓ increase; increase

Add Question Here

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

Question

Consider the Taylor rule. The larger the coefficient for the inflation gap, the ____ the _____ in the ex ante real interest rate will be when the economy faces a negative supply shock.

Answer

smaller; increase

smaller; decrease

✓ larger; increase

larger; decrease

Add Question Here

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

Question

If the output and inflation gap coefficients in the Taylor rule are relatively large, which of the following statements is true when the economy faces a negative supply shock?

Answer

Inflation falls more slowly than if the coefficients were smaller.

✓ The ex ante real interest rate increases by more than if the coefficients were smaller.

The output decrease is smaller than if the coefficients were smaller.

There is no change in the ex ante real interest rate if the coefficients in the Taylor rule are relatively large.

Add Question Here

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

Question
If the output and inflation gap coefficients in the Taylor rule are relatively large, which of the following statements is true when the economy faces a negative supply shock?

Answer
- Inflation rises quicker than if the coefficients were smaller.
- The ex ante real interest rate decreases by more than if the coefficients were smaller.
- ✓ The output decrease is larger than if the coefficients were smaller.
- There is no change in the ex ante real interest rate if the coefficients in the Taylor rule are relatively large

Add Question Here

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

Question
Which of the following statements about the output and inflation gap coefficients in the Taylor rule is true?

Answer
- ✓ Larger coefficients translate into a quicker stabilization process.
- Coefficients must be equal to each other at all times.
- There is widespread consensus among economists about the level of these coefficients.
- The Taylor rule works best when the summation of coefficients equal zero.

Add Question Here

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

Question
Suppose output is at potential and inflation equals its target. Then, an adverse supply shock pushes inflation above its target. The larger the coefficient on the inflation gap:

Answer
- the smaller the increase in the ex ante real interest rate.
- ✓ the quicker the economy returns to its long-run equilibrium.
- the smaller the output decrease.
- the longer the economy stays at a stagflation equilibrium (high inflation and low output).

Add Question Here

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

Question
Monetary policy is difficult to conduct in the “real world” because:

Answer
- the models are well defined, but the interpretation is difficult.
- we don't know the Taylor rule policy coefficients.
- ✓ uncertainty in the economy's behavior leads to policy mistakes.
- the economy is completely random.

Add Question Here

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

Question
It is difficult to measure the slope of the AE curve because output is affected by:

Answer
- changes in interest rates.
- fiscal policy.
- consumer sentiment.
- ✓ All of these answers effect output.

Add Question Here

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

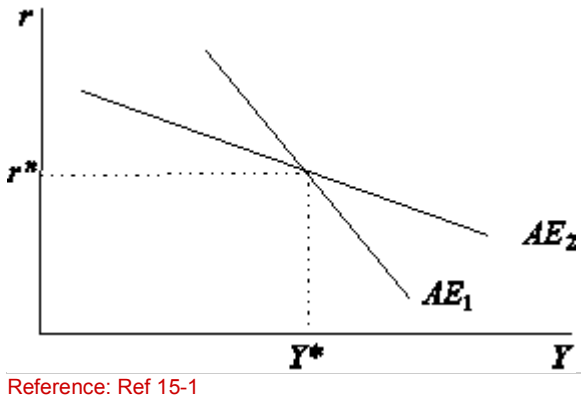
Question
Mistakes in monetary policy can be attributed to:

Answer
- mismeasuring the natural rate of unemployment.
- incorrectly estimating the slope of the*AE* curve.
- incorrectly estimating the slope of the Phillips curve.
- ✓ All of the answers are correct.

Add Question Here

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

Question
Figure 15.1



Reference: Ref 15-1

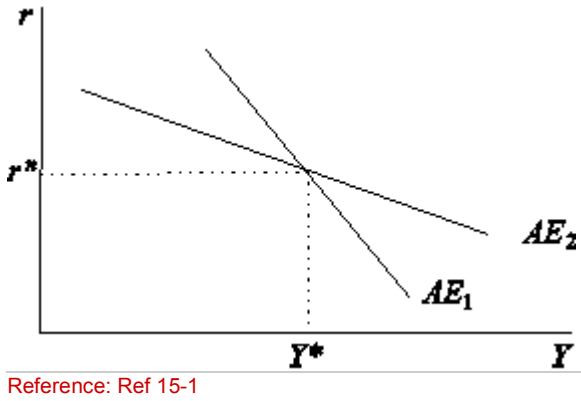
(Figure 15.1) If AE_1 is the “true” *AE* curve and AE_2 is the “estimated” *AE* and the Fed raises interest rates, it will push the economy into a _____ than the Fed intended, and it will have _____ on inflation.

Answer
- ✓ shallower recession; little impact
- deeper recession; little impact
- shallower recession; a large impact
- There is not enough information provided to answer the question.

Add Question Here

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

Question
Figure 15.1



Reference: Ref 15-1

(Figure 15.1) If AE_2 is the "true" *AE* curve while, AE_1 is the "estimated" *AE*, and the Fed raises interest rates, it will push the economy into a _____ than the Fed intended, and it will have _____ on inflation.

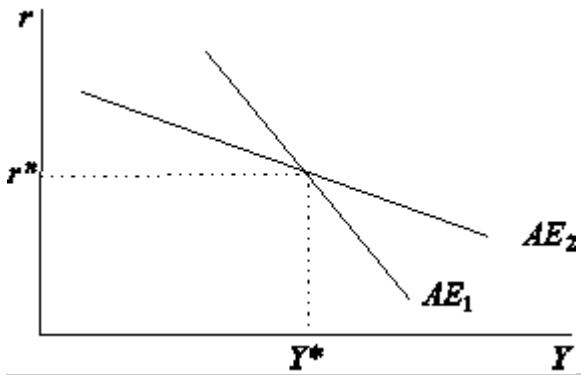
Answer

✓ deeper recession; a large impact
shallower recession; little impact
shallower recession; a large impact
shallower economic boom; a large impact

Add Question Here

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

Question
Figure 15.1



Reference: Ref 15-1

(Figure 15.1) If AE_2 is the "true" *AE* curve and AE_1 is the "estimated" *AE*, and the Fed lowers interest rates, it will push the economy into _____ than the Fed intended, and it will have _____ on inflation.

Answer

a shallower recession; little impact
a shallower recession; a large impact
✓ a larger economic boom; a large impact
a larger economic boom; a small impact

Add Question Here

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

Question
Suppose the Fed uses Okun's law to calculate the size of the output gap. Which of the following leads to mismeasurement of the output gap using Okun's law?

Answer

not knowing the Fed's inflation rate target.
✓ mismeasuring the natural rate of unemployment.
mismeasuring the current inflation rate.
using the wrong interest rate.

Add Question Here

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

Question
If the Fed thinks the natural rate of unemployment is 6 percent and the true natural rate is 4 percent, using Okun's law we can write the output gap mistake as:

Answer

$\hat{\tilde{Y}} = \tilde{Y} - 4.0.$
$\tilde{Y} = \hat{\tilde{Y}} + 4.0.$
✓ $\hat{\tilde{Y}} = \tilde{Y} + 4.0.$
$\hat{\tilde{Y}} = \tilde{Y} + 8.0.$

Add Question Here

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

Question
Suppose the estimated output gap is 2 percent above the actual one. Using the Taylor rule, the Fed's policy would be:

Answer

✓ more contractionary than necessary.
more expansionary than necessary.
less contractionary than necessary.
There is not enough information provided to answer the question.

Add Question Here

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

Question
Suppose the estimated output gap is 2 percent below the actual one. Using the Taylor rule, the Fed's policy would be:

Answer
- more contractionary than necessary.
- ✓ more expansionary than necessary.
- less expansionary than necessary.
- There is not enough information provided to answer the question.

Add Question Here

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

Question
If the Fed thinks the economy's output is below its potential because it mismeasures _____, it runs the risk of _____.

Answer
- ✓ the natural rate of unemployment; pushing inflation above its target
- the real interest rate; increasing the natural rate of unemployment
- the natural rate of unemployment; pushing the economy into recession
- last period's inflation rate; changing the target inflation rate

Add Question Here

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

Question
If the Fed thinks the economy's output is above its potential, if it mismeasures _____ , it runs the risk of _____.

Answer
- the real interest rate; decreasing the natural rate of unemployment
- the natural rate of unemployment; pushing inflation above its target
- ✓ the natural rate of unemployment; pushing the economy into recession
- last period's inflation rate; changing the target inflation rate

Add Question Here

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

Question
The Great Inflation of the 1970s was caused by:
I. adverse supply shocks.
II. overly expansionary monetary policy.
III. a jump in consumer sentiment.

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

Add Question Here

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

Question
Inflation in the Great Inflation of the 1970s began:

Answer
- in 1972.
- with the OPEC oil embargo.
- in 1979.
- ✓ in the late 1960s.

Add Question Here

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

Question
Throughout much of the Great Inflation of the 1970s, the:

Answer
- ✓ real federal funds rate was negative.
- nominal federal funds rate was zero.
- real federal funds rate was over 20 percent.

Add Question Here

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

Question
John Taylor proposed that the reason the Fed's monetary policy was overly _____ during the 1970s was because the policy response coefficient for _____.

Answer
- contractionary; inflation was negative
- neutral; the output gap was infinite
- ✓ expansionary; inflation was negative
- contractionary; the output gap was zero

Add Question Here

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

Question
Which of the following Taylor rules *best* describes John Taylor's explanation for overly expansionary monetary policy during the 1970s?

Answer
- $r = 1.5 - 1.5\tilde{Y} + 1.5(\pi - \pi^T)$
- ✓ $r = 1.5 + 0.5\tilde{Y} - 0.5(\pi - \pi^T)$
- $r = 0.5(\pi - \pi^T)$
- $r = -2.5 + 1.5\tilde{Y} + 1.5(\pi - \pi^T)$

Add Question Here

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

Question
According to former Fed economist Athanasios Orphanides, a reason for the Great Inflation in the 1970s was that the

Answer
✓ Fed mismeasured the output gap.
inflation coefficient in the Taylor was negative.
Fed miscalculated the real interest rate.
All of these answers are correct.

Add Question Here

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

Question
Using the Taylor rule for monetary policy, $r = r^n + a_Y \tilde{Y} + a_\pi(\pi - \pi^T)$, in a study on the overly expansionary monetary policy during the 1970s, former Fed economist Athanasios Orphanides believes that _____, while in another study on the same subject John Taylor found that _____.

Answer
✓ $a_\pi > 0; a_\pi < 0$
$a_Y > 0; a_Y < 0$
$a_\pi < 0; a_Y = 0$
$a_\pi = 0; a_\pi < 0$

Add Question Here

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

Question
According to John Taylor, a reason for the Great Inflation in the 1970s was that the:

Answer
Fed mismeasured the output gap.
Fed miscalculated the real interest rate.
✓ inflation coefficient in the Taylor rule was negative.
All of these answers are correct.

Add Question Here

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

Question
During the 1990s, the natural rate of unemployment:

Answer
rose.
was zero.
was constant.
✓ fell.

Add Question Here

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

Question
During the 1990s, the natural rate of unemployment _____, but many economists believed it remained constant and thought the Fed was _____.

Answer
rose; overestimating the negative output gap
was zero; underestimating the positive output gap
✓ fell; underestimating the positive output gap
fell; overestimating the positive output gap

Add Question Here

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

Question
Suppose you are an economist for Moody's and believe the natural rate of unemployment is constant. If in fact it is falling, and the unemployment rate falls, you would recommend that the Fed

Answer
reduce interest rates.
✓ raise interest rates.
keep interest rates constant.
keep tabs on the stock markets.

Add Question Here

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

Question
If both the unemployment rate and its natural rate are rising at the same rate, the Taylor rule recommends that the Fed:

Answer
✓ do nothing to the federal funds rate.
raise the federal funds rate.
lower the federal funds rate.
There is not enough information provided to answer the question.

Add Question Here

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

Question
The macroeconomic model of the U.S. economy devised by economists at the Board of Governors is nicknamed:

Answer
“HUD.”
“NAIRU.”
✓ “Furbus.”
“Fannie Mae.”

Add Question Here

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

Question
According to former vice chair of the Fed, the Fed should "decide what policy is:

Answer
- best and then do nothing."
- best and then do more."
- the worst and then do the opposite."
- ✓ best and then do less."

Add Question Here

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

Question
By using _____ interest rate policy, the Fed practices _____.

Answer
- ✓ cautionary; interest-rate smoothing
- reactionary; unemployment rate reactionism
- low; inflationary minimization
- cautionary; consumption smoothing

Add Question Here

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

Question
Generally speaking, when the Fed adjusts the federal funds rate it does so in _____ point increments, because it practices _____.

Answer
- ±1 percent; discretionary policy
- ✓ ±1/4 percent; interest-rate smoothing
- –1 percent; expansionary monetary policy
- None of the answers are correct.

Add Question Here

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

Question
If a central bank believes monetary policy should not be responsive to output gaps, its Taylor rule would be

Answer
- $r = r^n + a_Y \tilde{Y} + a_\pi(\pi - \pi^T)$.
- $r = r^n + a_Y \tilde{Y}$.
- ✓ $r = r^n + a_\pi(\pi - \pi^T)$.
- $r = r^n$.

Add Question Here

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

Question
If output becomes less sensitive to interest rate changes than the Fed believes, then for a given interest rate increase, the Fed has ____ the effect of interest rate changes and output falls ____ than expected.

Answer
- underestimated; less
- underestimated; more
- ✓ overestimated; less
- overestimated; more

Add Question Here

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

Question
If output turns out to be more sensitive to interest rate increases than the Fed believes it is, then the Fed's efforts to keep output stable when a positive expenditure shock occurs will:

Answer
- ✓ destabilize the economy.
- lead to higher inflation.
- drive actual output above potential output.
- cause prices to fall.

Add Question Here

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

Question
Assume that Okun's law holds and that the natural rate of unemployment is 2 percentage points higher than the Fed believes it is. Suppose the Fed follows the Taylor rule, then the interest rate will be ____ it should be and monetary policy will be ___ it should be.

Answer
- ✓ lower than; more expansionary than
- higher than; more restrictive than
- exactly where; exactly where
- There is not enough information provided to answer the question.

Add Question Here

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

Question
During the 2007–2009 recession, the Fed kept interest rates of zero percent. Suppose that contrary to the Fed's belief, the natural rate of unemployment had risen during the recession. How should the Fed have responded to the increased natural rate?

Answer
- expanded the money supply more than it did
- ✓ raised interest rates higher than it did
- allowed inflation to rise more than it did

reduced its estimate of the output gap

Add Question Here

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

Question
According to John Taylor, one reason why inflation was higher in the 1970s is because:
I. the Fed measured the inflation coefficient incorrectly.
II. the Fed set interest rates too low.
III. the Fed mismeasured the real interest rate.

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

Add Question Here

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

Question
Inflation averaged 9 percent in the 1970s, well above historical averages. According to John Taylor, inflation was too high because ____, whereas according to Athanasios Orphanides, inflation was too high because ___.

Answer
- the Fed didn't increase interest rates enough; the Fed increased interest rates too late
- the Fed didn't follow the Taylor rule; the Fed followed the Taylor rule
- ✓ the Fed misestimated the sensitivity of inflation to the interest rate; the Fed mis-estimated the sensitivity of output to the interest rate
- None of the answers are correct.

Add Question Here

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

Question
The slope of the AE curve shows how much a raise in the real interest rate:

Answer
- increases output.
- ✓ decreases output.
- increases investment.
- decreases investment.

Add Question Here

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

Question
The slope of the Phillips curve shows how much a rise in output:

Answer
- raises unemployment.
- lowers unemployment.
- ✓ raises inflation.
- lowers inflation.

Add Question Here

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

Question
Assume that the central bank estimates the AE curve to be steeper than the true AE curve. If the central bank tries to stabilize output after an autonomous increase in aggregate expenditure, it will ____ the real interest rate, thereby ____.

Answer
- ✓ raise; decreasing output below potential
- raise; increasing output above potential
- lower; decreasing output below potential
- lower; increasing output below potential

Add Question Here

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

Question
A common way to estimate the output gap is to use ____. With this approach, estimates of the output gap depend on estimates of the _____.

Answer
- Okun's law; real interest rate
- the Fisher equation; real interest rate
- ✓ Okun's law; natural rate of unemployment
- the Fisher equation; natural rate of unemployment

Add Question Here

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

Question
During the period known as the “Great Inflation,” policymakers _____ the natural rate of unemployment, leading to overly _____ monetary policy.

Answer
- underestimated; contractionary
- overestimated; contractionary
- overestimated; expansionary
- ✓ underestimated; expansionary

Add Question Here

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

Question
Suppose the central bank uses Okun's law to estimate the output gap. If policymakers estimate that the natural rate of unemployment is 5 percent, but it turns out that the true natural rate of unemployment is 4 percent, then policymakers' estimate of the output gap will always be:

Answer

1 percent below the true output gap.
1 percent above the true output gap.
✓ 2 percent above the true output gap.
2 percent below the true output gap.

Add Question Here

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

Question
Suppose the central bank uses Okun's law to estimate the output gap. Policymakers' estimate of the natural rate of unemployment is 5 percent, but the true natural rate of unemployment is 6 percent. If in a given year unemployment is 4 percent, policymakers' estimate of the output gap is _____, while the true output gap is _____.

Answer

✓ 2 percent; 4 percent
1 percent; 4 percent
2 percent; 6 percent
1 percent; 6 percent

Add Question Here

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

Question
Which of the following include central banks' efforts to cope with uncertainty when conducting monetary policy?

Answer

respond aggressively to changes in the output gap.
aggressively adjust interest rates.
✓ have smaller responses to output gaps.
aggressively change monetary aggregates.

Add Question Here

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

Question
In the United States, the Federal Open Market Committee is scheduled to meet every _____, while the European Central Bank's Governing Council meets every _____.

Answer

✓ six weeks; four weeks
four weeks; six weeks
four weeks; four weeks
six weeks; two weeks

Add Question Here

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

Question
The Board of Governors' economists publish the _____ to monitor the state of the U.S. economy.

Answer

Economic Report to the President
Beige Book
✓ Green Book
Little Red Book

Add Question Here

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

Question
Every six weeks, economists working for the Board of Governors publish the _____ and economists at the various Fed banks contribute to the _____.

Answer

Green Book; Red Book
Beige Book; Economic Report to the President
FOMC Meeting Minutes; Federal Reserve Bulletin
✓ Green Book; Beige Book

Add Question Here

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

Question
The economic forecasts presented in the Green Book:

Answer

are the Board's “Furbus” Model.
✓ are based on judgment, not economic models.
are a small number of structural equations.
represent the opinion of the Chairman of the Board.

Add Question Here

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

Question
The Blue Book contains information about:

Answer

the value of used and new cars in the United States.
various industries that are doing well or badly in different parts of the country.
✓ the pros and cons of different policy options.
data on the economy released in the previous week.

Add Question Here

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

Question
The book distributed to Fed policymakers that contains anecdotal information about how various industries are doing in different parts of the country is known as the:

Answer
- Green Book.
- Blue Book.
- Red Book.
- ✓ Beige Book.

Add Question Here

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

Question
Which of the following statements about the FOMC meeting is true?

Answer
- All 12 presidents of the Federal Reserve Banks vote at the FOMC meeting.
- It is common that a Chair's proposal is defeated in a FOMC vote.
- ✓ The FOMC meets every 6 weeks.
- No member of the Board of Governors votes at a FOMC meeting.

Add Question Here

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

Question
When considering the target federal funds rate, the FOMC takes into consideration:

Answer
- the output gap.
- the difference between the inflation rate and its target rate.
- asset markets.
- ✓ All of the answers are correct.

Add Question Here

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

Question
The reason the Fed may adjust the federal funds rate during a financial crisis is because this:

Answer
- ✓ impacts consumer confidence.
- increases capital investment.
- increases bank lending.
- All of the answers are correct.

Add Question Here

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

Question
Because of _____ the Fed _____ rather than respond to them.

Answer
- ✓ lags in policy effects; should act to prevent financial crashes
- inside lags; should ignore financial crashes
- a lack of knowledge; should ignore financial crashes
- a belief in free markets; should act to prevent financial crashes

Add Question Here

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

Question
During the stock market boom in the 1990s, the Fed:

Answer
- raised interest rates to ward off an asset bubble.
- reduced nominal interest rates to zero.
- increased income tax rates.
- ✓ ignored advice to raise interest rates.

Add Question Here

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

Question
For many years Chairman of the Fed Ben Bernanke has argued that:

Answer
- tax policy should be more flexible.
- ✓ monetary policy should not respond to asset bubbles.
- the Fed take longer when making policy decisions.
- that the Fed should ignore inflation.

Add Question Here

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

Question
The Fed may deviate from the Taylor Rule when:
I. nominal interest rates are at or near zero.
II. asset prices decline sharply.
III. the output gap increases.

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

Add Question Here

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

Question
During the financial crisis of 2007–2009, the Fed deviated from the Taylor rule in two significant ways. From June 2007 to April 2008, the Fed deviated from the Taylor rule by ____; after the fall of 2008, the Fed deviated from the rule by_____.

Answer
- raising interest rates above the Taylor rule; cutting interest rates below the Taylor rule
- ✓ cutting interest rates below the Taylor rule; not cutting interest rates because they were at a zero bound
- allowing inflation to rise; allowing interest rates to rise
- raising nominal interest rates; cutting nominal interest rates

Add Question Here

Question 131 **Multiple Choice** **0 points** Modify Remove

Question
Economists debate the wisdom of using interest rate policy to burst an asset bubble. Those in favor of bursting the bubble believe that ___; those against bursting the bubble believe that _____.

Answer
- the economy benefits when asset prices fall rapidly; the economy suffers when asset prices fall rapidly
- the Fed can control the business cycle; the Fed cannot control the business cycle
- ✓ because policy takes effect with a lag, the Fed should dampen bubbles before they burst; the Fed cannot identify when a bubble exists
- the Fed can fine-tune interest rate policy; the Fed should allow markets to operate freely

Add Question Here

Question 132 **Multiple Choice** **0 points** Modify Remove

Question
When a financial crisis is on its way, central banks sometimes respond more aggressively than suggested by the Taylor rule. Reasons about why policymakers would do that include:

Answer
- to make sure that the economy can resist a worsening of the financial crisis.
- to prevent future decreases in consumption and investment.
- to force failed financial institutions into bankruptcy so that the economy can recover quicker.
- ✓ Both a and b are correct.

Add Question Here

Question 133 **Multiple Choice** **0 points** Modify Remove

Question
Supporters of the idea that central banks should respond to asset price bubbles argue that:

Answer
- asset price bubbles are very difficult to identify.
- ✓ it might be too late to wait for the bubble to burst; therefore central banks should take preemptive actions and end the bubble.
- central banks should decrease the real interest rate when they observe an asset price bubble.
- central banks do not have the proper tools to stop an asset price bubble.

Add Question Here

Question 134 **Multiple Choice** **0 points** Modify Remove

Question
Supporters of the idea that central banks should not respond to asset price bubbles argue that:

Answer
- asset price bubbles are quite easy to identify.
- increasing interest rates has no effects in other sectors of the economy.
- ✓ the effects of increasing interest rates to fight asset bubbles are uncertain.
- changes in interest rates are an effective way of dealing with asset price bubbles.

Add Question Here

Question 135 **Multiple Choice** **0 points** Modify Remove

Question
Which of the following statements about the Fed's attitude toward asset price bubbles is true?

Answer
- The Fed usually tries to respond aggressively to bubbles by increasing interest rates.
- The Fed raised interest rates to prick the stock price bubble during the late 1990s.
- ✓ The Fed has decided that it is too dangerous to prick bubbles and usually takes no action against asset price bubbles.
- The Fed usually tries to respond aggressively to bubbles by decreasing monetary aggregates like M1 or M2.

Add Question Here

OK