Instructions:

This is the on-line Multiple Choice Quiz for Chapter 12. Please do the following:

Step 1: Go to the special codes section on your score sheet

- Write your section number (1, or 4, or 5) under the letter K. Also fill out the appropriate bubble corresponding to your section number in column K.
- Go to the columns O and P. Enter for this chapter, 1 in the O column, and 2 in the P column. Also fill out the appropriate bubbles below in columns O and P.

Step 2: Enter your university identification number, using numbers and corresponding bubbles.

Step 3: Enter your name, using letters and corresponding bubbles.

Step 4: Answer all 35 questions.

Step 5: Check the important dates link on the class home page for the availability and closing dates for the successive on-line multiple choice quizzes.

Step 6: Hand in your score sheets in class, to your TA’s or to myself, in class, or outside my office, Heady Hall 281, no later than the posted closing date and hour (5 p.m.)

We will use the following grading scale:

- A = 35, 34, 33, 32, 31, 30
- B = 29, 28, 27, 26, 25, 24
- C = 23, 22, 21, 20, 19, 18
- D = 17, 16, 15, 14, 13, 12
- F = less than 12

Note: All MC quizzes will be discussed in detail in class for each section (1, 4, or 5) prior to the posted Friday 5 p.m. closing date and hour. Bring your printed test and score sheet to that class session for that purpose.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which of the following does NOT describe a function of money?
   A) a hedge against inflation
   B) a store of value
   C) a unit of account
   D) a medium of exchange

2) When you buy a hamburger for lunch, you are using money as a
   A) store of value.
   B) medium of exchange.
   C) standard of deferred payment.
   D) unit of accounting.

3) Which of the following is an example of using money as a store of value?
   A) paying for a new dress with a credit card
   B) paying cash for a new automobile
   C) keeping $200 on hand for an emergency
   D) paying rent with a check on a demand deposit

4) Which of the following correctly completes this statement? Money in the United States includes
   A) the sum of all money incomes.
   B) the sum of currency, deposits, and bonds held by the public and by the banking industry.
   C) the currency and bank deposits held by the nonbanking public.
   D) the cash in banks plus the sum of all checks written.

5) Which of the following is NOT included in the M1 definition of money?
   A) time deposits
   B) currency held outside banks
   C) checking deposits at savings and loans
   D) traveler’s checks

6) The definition of M2 includes
   A) savings deposits.
   B) M1.
   C) time deposits.
   D) all of the above

7) Checks are NOT money because they
   A) are merely instructions to transfer money.
   B) are issued by banks, not by the government.
   C) are not backed by either gold or silver.
   D) have value in exchange but little intrinsic value.

8) Using a credit card can best be likened to
   A) writing a check on your demand deposit account.
   B) taking out a loan.
   C) using any other form of money because you immediately get to take the goods home.
   D) a barter exchange.

9) A firm that takes deposits from households and firms and makes loans to other households and firms is a
   A) depository institution.
   B) usurer.
   C) credit company.
   D) stockbroker.
10) The major role of a commercial bank is to
   A) restrain the growth of the quantity of money.       B) make mortgage loans.
   C) sell shares and use the proceeds to buy stocks.    D) receive deposits and make loans.

11) Your checking account is
   A) a liability for you and an asset for your bank.    B) an asset for both you and your bank.
   C) a liability for both you and your bank.            D) an asset for you and a liability for your bank.

12) Banks are in business
   A) because they keep all their assets as reserves.    B) to make as many loans as possible.
   C) to maximize their reserves.                        D) to make a profit.

13) An asset category that is a major source of profits for banks is
   A) checkable deposit accounts.                        B) cash in the bank vault.
   C) loans.                                             D) savings deposits.

14) A bank’s reserves include
   A) the cash in its vault plus the value of its depositors’ accounts.
   B) the cash in its vault plus its deposits held at a Federal Reserve bank.
   C) its common stock holdings, the cash in its vault, and any deposits at a Federal Reserve bank.
   D) the cash in its vault plus any gold held for the bank at Fort Knox.

15) Which of the following statements concerning commercial banks is true?
   A) Cash reserves earn the highest rate of return of any asset for a bank.
   B) Since the advent of the Federal Reserve, banks do not need to maintain cash reserves.
   C) Banks need to maintain cash reserves equal to their deposits.
   D) Most banks maintain cash reserves equal to a fraction of deposits.

16) Bank managers lend the excess reserves created when new deposits come in because they want to
   A) earn a profit.                                     B) create new money in the economy.
   C) deplete required reserves.                        D) deplete desired reserves.

17) The reserve ratio is a bank’s reserves as a fraction of its
   A) currency.                                         B) total loans.
   C) total assets.                                     D) total deposits.

18) Banks make additional loans when required reserves
   A) exceed actual reserves, a situation of positive excess reserves.
   B) are less than actual reserves, a situation of negative excess reserves.
   C) exceed actual reserves, a situation of negative excess reserves.
   D) are less than actual reserves, a situation of positive excess reserves.

19) You deposit $4,000 in currency in your checking account. The bank holds 20 percent of all deposits as reserves.
    As a direct result of your deposit, your bank will create
   A) $3,200 of new money.                               B) $1,600 of new money.
   C) $800 of new money.                                 D) $200 of new money.
20) The above table gives the initial balance sheet for Mega Bank. Mega Bank holds no excess reserves. Based on the initial balance sheet, what is the required reserve ratio for Mega Bank?
   A) 30 percent    B) 3 percent    C) 10 percent    D) 1.4 percent

21) The above table gives the initial balance sheet for Mega Bank. Barney comes into the bank and deposits $50 of currency into his checking account. The required reserve ratio is 3 percent. After Barney’s deposit, but before any other actions occur, Mega Bank will have excess reserves of
   A) $48.50.    B) $50.00.    C) $15.00.    D) $33.00.

22) The above table gives the initial balance sheet for Mega Bank. Barney comes into the bank and deposits $50 of currency into his checking account. The required reserve ratio is 3 percent. After Barney’s deposit, but before any other actions occur, what volume of loans will be made by Mega Bank if the bank wants more profit and holds no excess reserves?
   A) $50.00    B) $33.00    C) $48.50    D) $15.00

23) The deposit multiplier is
   A) total reserves divided by deposits.
   B) deposits divided by the change in reserves.
   C) the change in reserves divided by the change in deposits.
   D) the change in deposits divided by the change in reserves.

24) The formula for the deposit multiplier is
   A) 1/(required reserve ratio).
   B) 1/(1 – actual reserves).
   C) 1/(1 – required reserve ratio).
   D) 1/(1 – desired reserves).

25) The larger the required reserve ratio, the
   A) larger is the deposit multiplier.
   B) larger is the amount of total money that can be created from a withdrawal.
   C) larger is the amount of total deposits that can be created from a new deposit.
   D) smaller is the deposit multiplier.

26) A required reserve ratio of 10 percent yields a deposit multiplier of

27) The required reserve ratio is 50 percent. Banks hold excess reserves and people hold currency. Then, if reserves in the economy rise by $10 million, the amount of deposits will rise by
   A) more than $20 million.
   B) $20 million.
   C) less than $20 million.
   D) None of the above answers are correct because the amount of deposits won’t change.
28) The real-world deposit multiplier will fall in size if
   A) people spend a smaller fraction of their income on food.
   B) the required reserve ratio is decreased.
   C) people reduce their vacation travel.
   D) people increase their demand for currency.

29) In the figure above, the graph that depicts only the short-run effect of a decrease in the quantity of money is
   A) Figure A.       B) Figure B.       C) Figure C.       D) Figure D.

30) In the figure above, the graph that best depicts the long-run effects of an increase in the quantity of money is
   A) Figure A.       B) Figure B.       C) Figure C.       D) Figure D.

31) In the figure above, the graph that best depicts the short-run effects of an increase in the quantity of money is
   ______ and the figure that best represents the long-run effects of an increase in the quantity of money is
   ______.
   A) Figure A; Figure B       B) Figure A; Figure C       C) Figure D; Figure B       D) Figure B; Figure D

32) The velocity of circulation is
   A) constant.
   B) the average number of times a dollar of money is used in a year to buy goods and services in GDP.
   C) the rate of change of the GDP deflator.
   D) the changes in the purchasing power of money over a given time period.
33) According to the quantity theory of money,
   A) $V$ and $M$ are not affected by changes in the price level.
   B) $V$ and $M$ are constant.
   C) $V$ and $P$ are not affected by the quantity of money.
   D) $V$ and $Y$ are not affected by the quantity of money.

34) The quantity theory of money predicts how changes in
   A) the price level affect real GDP.
   B) the price level affect nominal GDP.
   C) the quantity of money affect the price level.
   D) real GDP affect the nominal GDP.

35) An increase in the quantity of money leads to a proportional increase in the price level according to the
   A) equation of exchange.
   B) quantity theory of money.
   C) short-run theory of inflation.
   D) short-run $AD/AS$ model.