Instructions:

This is the on-line Multiple Choice Quiz for Chapter 13. 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 3 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:

\[
\begin{align*}
A &= 35, 34, 33, 32, 31, 30 \\
B &= 29, 28, 27, 26, 25, 24 \\
C &= 23, 22, 21, 20, 19, 18 \\
D &= 17, 16, 15, 14, 13, 12 \\
F &= \text{less than 12}
\end{align*}
\]

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) The Federal Reserve System
   A) was recently declared unconstitutional by the Supreme Court.
   B) adjusts the amount of currency in circulation.
   C) is headquartered in San Francisco.
   D) has officers that are elected, like members of Congress.

2) Controlling the quantity of money and interest rates to influence aggregate economic activity is called
   A) foreign policy.  B) monetary policy.
   C) bank antitrust policy.  D) fiscal policy.

3) Members of the Federal Reserve System's Board of Governors
   A) are elected at large by district banks.  B) hold 14-year staggered terms.
   C) are elected for life.  D) are a special subcommittee of the Senate.

4) The Federal Open Market Committee of the Federal Reserve System is responsible for
   A) defining the foreign exchange value of the dollar.
   B) maintaining competition among the nation's commercial banks.
   C) establishing the official price of gold.
   D) determining monetary policy actions.

5) The largest influence on the Fed's monetary policy actions is
   A) held by the Board of Governors.
   B) distributed equally among the district banks.
   C) held by the chairman of the Board of Governors, who sets the policy agenda.
   D) held by the New York Federal Reserve Bank because it implements policy.

6) The current chairman of the Federal Reserve System is

7) Which of the following is NOT a policy tool of the Federal Reserve System?
   A) the tax rate imposed on interest income
   B) the interest rate charged on loans to member banks
   C) the amount of required reserves held by member banks
   D) open market operations

8) The _______ rate is the interest rate at which the Fed lends _______ to commercial banks.
   A) federal funds; deposits  B) federal funds; reserves
   C) discount; gold  D) discount; reserves
9) An open market operation involves
   A) the Federal Reserve's purchase or sale of government securities.
   B) raising the debt limit of the United States.
   C) the issuance of new corporate stock.
   D) the changing of federal income tax rates.

10) The largest asset on the Fed's balance sheet is
    C) gold and foreign exchange.  D) loans to banks.

11) The Fed's liabilities include
    A) loans to banks.
    B) only Federal Reserve notes in circulation.
    C) only banks' deposits.
    D) both banks' deposits and Federal Reserve notes in circulation.

12) The monetary base is the sum of
    A) foreign and domestic deposits at the Fed.
    B) Federal Reserve notes, coins, and banks' deposits at the Fed.
    C) U.S. Treasury notes and other government securities.
    D) gold holdings and U.S. Treasury deposits at the Fed.

13) When the Fed lowers the required reserve ratio,
    A) banks hold fewer reserves.  B) banks can increase their lending.
    C) the quantity of money decreases.  D) Both answers A and B are correct.

14) If the Fed buys U.S. government securities,
    A) the discount rate will rise.  B) bank reserves will decrease.
    C) the interest rate will rise.  D) the quantity of money will increase.

15) When the Fed sells U.S. government securities to a bank, the Fed
    A) loans the money needed to buy the securities to the bank.
    B) credits the bank's account at the Fed.
    C) decreases the monetary base and decreases the quantity of money.
    D) gives the money from the sale to the U.S. Treasury.

16) The money multiplier is
    A) the amount by which a change in the quantity of money is multiplied to determine the change in the monetary base.
    B) equal to bank reserves divided by the change the quantity of money.
    C) the amount by which a change in the monetary base is multiplied to determine the change in the quantity of money.
    D) equal to bank reserves divided by the change in the monetary base.
17) A(n) _______ in the required reserve ratio will _______ the money multiplier.
   A) increase; have no effect on  B) decrease; will have no effect on
   C) increase; decrease  D) decrease; decrease

18) Suppose that the money multiplier is 3. If the Fed sells $2 million in securities, the quantity of money will
   A) increase by $6 million.  B) decrease by $666,667.
   C) decrease by $6 million.  D) increase by $666,667.

19) The nominal demand for money is
   A) inversely related to the price level.  B) inversely related to GDP.
   C) measured in constant dollars.  D) proportional to the price level.

20) If the price level doubles, the
   A) real demand for money decreases.  B) real demand for money increases.
   C) nominal demand for money increases.  D) nominal demand for money decreases.

21) The real quantity of money is
   A) measured in current dollars.  B) inversely related to the price level.
   C) inversely related to GDP.  D) measured in constant dollars.

22) The opportunity cost of holding money is the
   A) ease with which an asset can become money.  B) level of wage and rental income.
   C) interest rate.  D) price of goods and services.

23) When the interest rate rises, the quantity of money demanded decreases because
   A) people shift funds from money holdings to interest-bearing assets.
   B) people move funds from interest-bearing assets into money.
   C) people will buy fewer goods and hold less money.
   D) the price level also rises and people decrease their demand for money.

24) Which of the following is correct? The demand for money
   A) decreases as the price level increases.  B) depends on the quantity of money.
   C) increases as real GDP increases.  D) increases when the interest rate increases.

25) All of the following are examples of financial innovations that have decreased the demand for money EXCEPT
   A) credit cards.  B) inflation.
   C) automatic transfers between deposits.  D) ATM machines.
26) In the above figure, suppose the economy is initially on the demand for money curve $MD_1$. What is the effect of a fall in the interest rate?

A) The demand for money curve would shift leftward to $MD_0$.
B) There would be a movement upward along the demand for money curve $MD_1$.
C) The demand for money curve would shift rightward to $MD_2$.
D) There would be a movement downward along the demand for money curve $MD_1$.

27) In the above figure, suppose the economy is initially on the demand for money curve $MD_1$. What is the effect of an increase in real GDP?

A) There would be a movement upward along the demand for money curve $MD_1$.
B) There would be a movement downward along the demand for money curve $MD_1$.
C) The demand for money curve would shift leftward to $MD_0$.
D) The demand for money curve would shift rightward to $MD_2$.

28) In the above figure, suppose the economy is initially on the demand for money curve $MD_1$. What is the effect of an increase in financial innovation such as the introduction of ATMs?

A) There would be a movement upward along the demand for money curve $MD_1$.
B) There would be a movement downward along the demand for money curve $MD_1$.
C) The demand for money curve would shift rightward to $MD_2$.
D) The demand for money curve would shift leftward to $MD_0$. 
29) In the figure above, the Fed's decreasing the monetary base would create a change such as
A) a movement from point b to point a along the supply of money curve MS₀.
B) a shift from the supply of money curve MS₀ to the supply of money curve MS₁.
C) a shift from the supply of money curve MS₁ to the supply of money curve MS₀.
D) a movement from point a to point b along the supply of money curve MS₀.

30) The figure above illustrates the effect of
A) an increase in real GDP.
B) an open market sale by the Fed of government securities.
C) an open market purchase by the Fed of government securities.
D) a decrease in real GDP.
31) The figure above illustrates the effect of
A) a decrease in real GDP.
B) a Fed open market purchase of government securities.
C) an increase in real GDP.
D) a Fed open market sale of government securities.

32) If the Fed decreases the interest rate, then
A) a multiplier process that affects aggregate demand occurs.
B) the price of the dollar rises on the foreign exchange market and so net exports decrease.
C) investment and consumption expenditure decrease.
D) All of the above answers are correct.

33) In order to combat a recession, the Fed will ______ the quantity of money and ______ the interest rate.
A) increase; lower  B) decrease; raise  C) decrease; lower  D) increase; raise

34) The Fed directly controls the
A) discount rate.  B) Treasury bill rate.
C) commercial bill rate.  D) federal funds rate.

35) In general,
A) short-term interest rates move together.
B) different short-term interest rates go their own separate ways.
C) the discount rate is the most crucial short-term interest rate.
D) changes in the federal funds interest rate are very different from changes in other short-term interest rates.