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 3) 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 or 3) 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) Control of the nation's quantity of money is handled by
A) the Federal Reserve System.
B) the President of the United States.
C) Congress.
D) Congress, the Federal Reserve System, and all member commercial banks.

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

3) Which Federal Reserve bank president is always on the Federal Open Market Committee?
A) Chicago 
B) Boston 
C) St. Louis 
D) New York

4) The main policy-making organ of the Federal Reserve System is the
A) Federal Reserve bank presidents. 
B) Federal Open Market Committee. 
C) Board of Governors. 
D) Joint Congressional Committee on Monetary Policy.

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

6) The current chairman of the Federal Reserve System is
A) John Keynes. 
B) Alan Greenspan. 
C) Paul Volcker. 
D) Milton Friedman.

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

8) The discount rate refers to the interest rate
A) that banks charge their best customers.
B) that the Fed charges on loans of reserves to commercial banks.
C) that bank insurers pay on insured deposits.
D) on interbank lending.
9) The Federal Reserve's purchase or sale of government securities
   A) is an example of using the Fed's discount window.
   B) will have a negative impact on the international capital account of the United States.
   C) is done less frequently than any of the Fed's other monetary policy tools.
   D) is called an open market operation.

10) The largest asset on the Fed's balance sheet is
    A) gold and foreign exchange.  B) U.S. government securities.
    C) loans to banks.  D) Federal Reserve notes.

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

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

13) By raising the required reserve ratio, the Fed can
    A) increase bank lending to the general public.
    B) decrease the quantity of money.
    C) create an excess of reserves in the banking system.
    D) reduce interest rates.

14) When the central bank buys government securities, it leads to
    A) a decrease in demand deposits.  B) a decrease in the quantity of money.
    C) an increase in lending by banks.  D) an increase in interest rates.

15) When the Fed buys U.S. government securities from a bank, the Fed
    A) pays for the securities by giving the bank gold.
    B) decreases the amount of money in circulation.
    C) credits the bank's account at the Fed.
    D) borrows money from the U.S. Treasury to cover the purchase.
16) The money multiplier is
   A) the amount by which a change in the monetary base is multiplied to determine the change in the quantity of money.
   B) the amount by which a change in the quantity of money is multiplied to determine the change in the monetary base.
   C) equal to bank reserves divided by the change the quantity of money.
   D) equal to bank reserves divided by the change in the monetary base.

17) When the monetary base increases by $2 billion, the quantity of money increases by $10 billion. Thus, the money multiplier equals
   A) 5.       B) 0.2.       C) 20.0.       D) none of the above

18) Suppose that the money multiplier is 6. If the Fed buys $1 million in securities, the quantity of money will
   A) decrease by $6 million.       B) increase by $166,667.
   C) increase by $6 million.       D) decrease by $166,667.

19) The quantity of money that people choose to hold depends on which of the following?
   I. the price level
   II. financial innovation
   III. the exchange rate
   A) I and II       B) I, II, and III       C) I and III       D) I

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

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

22) The opportunity cost of holding money balances increases when
   A) the purchasing power of money rises.       B) consumers' incomes increase.
   C) the interest rate rises.       D) the price of goods and services falls.

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

24) ______ real GDP increases the demand for money and ______ the interest rate decreases the quantity of money demanded.
   A) Decreasing; increasing       B) Increasing; increasing
   C) Increasing; decreasing       D) Decreasing; decreasing
25) All of the following are examples of financial innovations that have decreased the demand for money EXCEPT
A) credit cards.
B) automatic transfers between deposits.
C) inflation.
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 rise 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 increased use of credit cards?
   A) There would be a movement downward along the demand for money curve $MD_1$.
   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) The demand for money curve would shift leftward to $MD_0$. 

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28) In the figure above, the Fed's increasing the monetary base would create a change such as
A) a shift from the supply of money curve $MS_1$ to the supply of money curve $MS_0$.
B) a shift from the supply of money curve $MS_0$ to the supply of money curve $MS_1$.
C) a movement from point $a$ to point $b$ along the supply of money curve $MS_0$.
D) a movement from point $b$ to point $a$ along the supply of money curve $MS_0$.

29) In the figure above, the Fed's lowering the required reserve ratio would create a change such as
A) a movement from point $b$ to point $a$ along the supply of money curve $MS_0$.
B) a shift from the supply of money curve $MS_0$ to the supply of money curve $MS_1$.
C) a movement from point $a$ to point $b$ along the supply of money curve $MS_0$.
D) a shift from the supply of money curve $MS_1$ to the supply of money curve $MS_0$. 

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30) The figure above illustrates the effect of
   A) an open market purchase by the Fed of government securities.
   B) an increase in real GDP.
   C) an open market sale 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) The Fed's actions to fight inflation shift the
   A) short-run aggregate supply curve rightward.        B) short-run aggregate supply curve leftward.
   C) aggregate demand curve leftward.                   D) aggregate demand curve rightward.

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

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

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