MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) To prevent adverse selection, health and life insurance companies
   A) charge the same premiums to all policyholders.
   B) always charge the same premiums to people regardless of certain pre-existing health conditions.
   C) require potential policyholders to submit medical records, and may refuse to sell policies to people with certain pre-existing health conditions.
   D) will do both (a) and (b) of the above.

2) To prevent the moral hazard problem, health and life insurance companies may write policies
   A) containing provisions which either reduce or eliminate benefits to persons who contract pre-specified illnesses.
   B) for which premiums increase dramatically once the policyholder is discovered to have contracted an illness.
   C) limiting the amount the companies will pay in the event that claims are submitted by policyholders.
   D) with all of the above provisions.
   E) with only (a) and (b) of the above provisions.

3) Because young males have a much higher rate of accidents on average than young females, automobile insurers will be likely to
   A) encourage young males to purchase collision insurance policies with relatively high deductibles.
   B) charge young males higher insurance premiums than young females, all else equal.
   C) encourage young females to purchase collision insurance policies with no deductibles.
   D) all of the above.
   E) only (a) and (b) of the above.
4) Of the following financial intermediaries, which holds the least liquid assets?
   A) Money market mutual funds
   B) Commercial banks
   C) Life insurance companies
   D) Property and casualty insurance companies

5) The president from which Federal Reserve Bank always has a vote in the Federal Open Market Committee?
   A) Boston   B) San Francisco   C) Philadelphia   D) New York

6) The Federal Open Market Committee consists of
   A) the seven members of the Board of Governors and seven presidents of the regional Fed banks.
   B) the twelve regional Fed bank presidents and the chairman of the Board of Governors.
   C) the seven members of the Board of Governors and five presidents of the regional Fed banks.
   D) the five senior members of the seven-member Board of Governors.

7) Advocates of Fed independence fear that subjecting the Fed to direct presidential or congressional control would
   A) force monetary authorities to sacrifice the long-run objective of price stability.
   B) impart an inflationary bias to monetary policy.
   C) make the so-called political business cycle less pronounced.
   D) do all of the above.
   E) do only (a) and (b) of the above.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) _____ is the most important monetary policy tool because it is the primary determinant of changes in reserves and the _____, the main source of fluctuations in the money supply.
   A) Open market operations; monetary base
   B) Open market operations; money multiplier
   C) Changes in reserve requirements; monetary base
   D) Changes in reserve requirements; money multiplier

2) In the simple deposit expansion model, an expansion in checkable deposits of $1,000 when the required reserve ratio is equal to 10 percent implies that the Fed
   A) sold $1000 in government bonds.
   B) sold $100 in government bonds.
   C) purchased $1000 in government bonds.
   D) purchased $100 in government bonds.

3) The Fed can exert more precise control over _____ than it can over _____.
   A) high-powered money; reserves
   B) high-powered money; the monetary base
   C) the monetary base; high-powered money
   D) reserves; high-powered money
4) Changes in the reserve requirement are an infrequently used monetary policy tool since
   A) this tool is too blunt.
   B) this tool is too weak.
   C) banks find it costly to adjust to such changes.
   D) both (a) and (c) of the above are true

5) If a bank chooses to purchase securities rather than extend loans with its excess reserves,
   A) the expansion of deposits in the banking system will be dampened.
   B) the effect on deposits will be the same as if the bank had held its excess reserves in vault cash.
   C) the effect on deposits will be the same as if the bank had extended loans.
   D) all of the above.
   E) only (a) and (b) of the above.

6) Open market sales _____ reserves and the monetary base thereby _____ the _____.
   A) lower; lowering; money supply
   B) raise; raising; money supply
   C) lower; lowering; money multiplier
   D) raise; raising; money multiplier
   E) lower; raising; money multiplier

7) If a member of the nonbank public purchases a government bond from the Federal Reserve with currency,
   A) reserves will fall.
   B) the monetary base will fall.
   C) reserves will remain unchanged.
   D) both (a) and (b) will occur.
   E) both (b) and (c) will occur.
8) An increase in discount loans by the Fed leads to
   A) a decline in the monetary base.
   B) a decline in the money supply.
   C) an increase in the money supply.
   D) all of the above.
   E) only (a) and (b) of the above.

9) Excess reserves are equal to
   A) total reserves minus discount loans.
   B) vault cash plus deposits with Federal Reserve banks minus required
      reserves.
   C) vault cash minus required reserves.
   D) deposits with the Fed minus vault cash plus required reserves.

10) If a person selling bonds to the Fed cashes the Fed’s check,
    A) reserves remain unchanged, but currency in circulation declines.
    B) reserves remain unchanged, but currency in circulation increases.
    C) currency in circulation remains unchanged, but reserves increase.
    D) currency in circulation remains unchanged, but reserves decline.

11) Which of the following are true concerning the distinction between interest
    rates and return?
    A) The rate of return on a bond will not necessarily equal the interest rate
       on that bond.
    B) The return can be expressed as the difference between the current yield
       and the rate of capital gains.
    C) The rate of return will be greater than the interest rate when the price of
       the bond falls between time t and time t+1.
    D) All of the above are true.
    E) Only (a) and (b) of the above are true.
12) Disadvantages of discount policy include
   A) the confusion concerning the Fed's intentions about future monetary policy because of the uncertainty about what a change in the discount rate is intended to signal.
   B) large fluctuations in the volume of discount loans caused by infrequent adjustments in the discount rate to market interest rates.
   C) its relative imprecision, when compared to open market operations, over control of the money supply.
   D) all of the above.
   E) only (a) and (b) of the above.