

Monetary Policy- Ch. 16

Multiple Choice

Identify the choice that best completes the statement or answers the question.

1 The lowest point in an economic contraction is called a

- A peak
- B trough
- C recession
- D depression

2 In an economy, when the price level falls, consumers and firms buy more goods and services. This relationship is represented by the

- A aggregate supply curve
- B aggregate demand curve
- C equilibrium GDP
- D business cycle

3 In a typical business cycle, what stage immediately follows a peak?

- A contraction
- B expansion
- C trough
- D growth

4 Which of the following might cause the inflation rate to spike up sharply?

- A The items in the CPI market basket change because of changing consumer buying habits.
- B The purchasing power of the average consumer increases due to a tax refund.
- C Prices on world oil markets rise steeply due to war in the Middle East.
- D Plentiful rainfall and moderate temperatures result in good harvests of wheat and soybeans.

5 Why does the Federal Reserve alter monetary policy?

- A to regulate the banking industry
- B to provide services to member banks
- C to enable banks to clear checks
- D to lessen the negative effects of business cycles

6 How could the Federal Reserve encourage companies to borrow more money from banks?

- A reduce the discount rate
- B raise the required reserve rate
- C decrease the prime rate
- D reduce the money supply

7 How many Federal Reserve Districts are there?

- A 6
- B 9
- C 12
- D 20

8 What does "lender of last resort" mean with respect to the Federal Reserve?

- A It will lend money to a bank in a financial emergency.
- B It makes decisions about who a bank can lend money to.
- C It decides interest rates for interbank loans.
- D It has the power to decide how much money a bank can lend out.

9 How does a member of the Federal Reserve's Board of Governors get their job?

- A President nominates them
- B President nominates them and the Senate approves
- C House of Representative nominates them and the President approves
- D Senate nominates them and the President approves

10 Why might a bank hold reserves greater than the required reserve rate?

- A to be sure they can meet customers' demands
- B to protect against high prices
- C to make check clearing easier
- D to increase their prime rate

11 Which of the following is one way the Federal Reserve Bank serves the government?

- A making loans to the government
- B selling government securities
- C setting taxes for the government
- D financing state government projects

12 As commercial banks keep more excess reserves, money creation

- A increases
- B decreases
- C remains the same
- D could either increase or decrease

13 Which of the following instruments is NOT used by the Federal Reserve to change the money supply?

- A the discount rate
- B the required reserve ratio
- C the federal tax code
- D open market operations

14 What effect would an increase in the discount rate have on the money supply?

- A It would cause the money supply to contract.
- B It would increase the money multiplier.
- C It would cause the money supply to expand.
- D It would have no effect on the money supply.

15 Which of these tools is an example of monetary policy?

- A reducing income taxes
- B changing reserve requirements
- C increasing government spending
- D borrowing money through deficit spending

16 What is the relationship between interest rates and demand for money?

- A As interest rates decrease, demand for money increases.
- B As interest rates increase, demand for money increases.
- C Interest rates are determined by demand for money.
- D Interest rates and demand for money are unrelated.

17 What is the name of the interest rate set by the Federal Reserve that is the rate charged to banks borrowing money from the Federal Reserve?

- A the Loan Rate
- B the Prime Rate
- C the Interest Rate
- D the Discount Rate

18 What is an entitlement?

- A a social welfare program providing benefits to people who meet certain eligibility requirements
- B a social welfare program paying bills for government spending such as supplies and utilities
- C a social welfare program spending funds over which legislators have direct control
- D a social welfare program providing payments that the government receives for certain services

19 The federal government spends the largest amount of its budget on Social Security, which is an example of

- A federal aid to state and local governments.
- B discretionary spending.
- C mandatory spending.
- D defense spending.

20 An example of expansionary fiscal policy would be

- A cutting taxes.
- B cutting government spending.
- C cutting production of consumer goods.
- D cutting prices of consumer goods.

21 An example of contractionary fiscal policy would be

- A cutting taxes.
- B decreasing government spending.
- C increasing production of consumer goods.
- D expanding the government's role in regulating private industry.

22. Which of these is a contractionary fiscal policy?

- A. The federal government builds a new medical research center at a prestigious state university.
- B. The President and Congress pass a new two-cent-per-gallon gasoline tax.
- C. The federal government sends taxpayers up to \$300 each in the form of an income tax rebate.
- D. The sales tax on clothing is lifted for one week before the school year begins.

23. When a nation imports more than it exports, economists say it has which of the following?

- A. a trade surplus
- B. a balance of trade
- C. a trade deficit
- D. a national difference

24. The primary role of money in the economy is to

- A. Help set interest rates at financial institutions.
- B. Identify prices in various markets.
- C. Provide for a mechanism to assist in foreign trade.
- D. Serve as a medium of exchange for goods and services.

25. Which component of the Federal Reserve System holds the most power in regards to implementing monetary policy?

- A. Board of Governors
- B. Congress and the President
- C. Federal Open Market Committee
- D. Twelve District Banks

26. The process by which the Federal Reserve controls the money supply, availability, and cost of money in order to keep the economy stable is:

- A. Discount Rate
- B. Fiscal Policy
- C. Interest Rate
- D. Monetary Policy

27. Which of these tools is an example of monetary policy?

- A. Borrowing money through deficit spending
- B. Changing Reserve Requirements
- C. Increasing Government Spending
- D. Reducing Income Taxes

28. If the Fed wanted to stimulate the U.S. economy and reduce unemployment, it would:

- A. Cause interest rates to decrease because low interest rates encourage business growth and expansion.
- B. Cause interest rates to rise because high interest rates bring more money into the economy.
- C. Increase the discount rate it charges to banks, which would increase the money supply.
- D. Increase consumer spending by reducing the money supply.

29. Which statement BEST describes the U.S. government's monetary policy and fiscal policy?

- A. Monetary policy refers to the Fed's influence in the economy through borrowing and creating a deficit; fiscal policy refers to the government's authority to increase spending.
- B. Monetary policy refers to the Fed's authority to increase spending; fiscal policy refers to the government's authority to increase the discount rate for loans to banks.
- C. Monetary policy reflects the Fed's authority to change the money supply; fiscal policy reflects the government's power to influence the economy through taxes, expenditures, and borrowing.
- D. Monetary policy reflects the Fed's authority to change tax rates; fiscal policy reflects the government's power to influence the money supply by lowering the discount rate for loans to banks.

