

Monetary Policy Practice 2017

Key

Use the monetary policy of the discount rate to solve inflation.

1. What does the Federal Reserve need to do to aggregate demand?
 - A. Increase aggregate demand
 - B. Reduce aggregate demand
2. What does the Fed need to do to the money supply to change the aggregate demand?
 - A. Increase the money supply
 - B. Reduce the money supply
3. What should the Fed do to the discount rate to change the money supply?
 - A. Increase the discount rate
 - B. Reduce the discount rate
4. How will this change in the money supply affect interest rates?
 - A. Increase interest rates
 - B. Reduce interest rates
5. How will this change in interest rates affect the amount of money borrowed?
 - A. Increase borrowing
 - B. Reduce borrowing
6. How will this change in borrowing affect consumer spending in the economy?
 - A. Spending increases
 - B. Spending is reduced

Supply ↑
Interest Rate ↓

Use the monetary policy of open market operations to solve a recession.

14. What does the Federal Reserve need to do to aggregate demand?

A. Increase aggregate demand

B. Reduce aggregate demand

15. What does the Fed need to do to the money supply to change the aggregate demand?

A. Increase the money supply

B. Reduce the money supply

16. What should the Fed do to bonds to change the money supply?

A. Buy bonds

B. Sell bonds

17. How will this bond action affect the reserves available for loan at banks?

A. Increase reserves

B. Reduce reserves

18. How will this change in the money supply affect interest rates?

A. Increase interest rates

B. Reduce interest rates

19. How will this change in interest rates affect the amount of money borrowed?

A. Increase borrowing

B. Reduce borrowing

20. How will this change in borrowing affect consumer spending in the economy?

A. Spending increases

B. Spending is reduced