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

1) The government agency that oversees the banking system and is responsible for the conduct of monetary policy in the United States is
   A) the U.S. Gold Commission.
   B) the House of Representatives.
   C) the Federal Reserve System.
   D) the United States Treasury.
   E) none of the above.

2) Which of the following are depository institutions?
   A) Commercial banks
   B) Savings and loan associations
   C) Credit unions
   D) Mutual savings banks
   E) All of the above

3) A commercial bank is classified as a depository institution because it
   A) accepts deposits from individuals and institutions.
   B) makes loans.
   C) it is responsible for the conduct of monetary policy.
   D) all of the above.
   E) does both A and B of the above.

4) Federal reserve assets include
   A) government securities.
   B) discount loans.
   C) currency in circulation.
   D) all of the above.
   E) both A and B of the above.

5) The monetary base consists of
   A) reserves and government securities.
   B) currency in circulation and discount loans.
   C) currency in circulation and Federal Reserve notes.
   D) currency in circulation and government securities.
   E) currency in circulation and reserves.
6) The sum of currency in circulation and total reserves is called
   A) high-powered money.       B) the monetary base.
   C) the borrowed base.         D) both A and B of the above.

7) Total reserves minus bank deposits with the Fed equals
   A) vault cash.
   B) currency in circulation.
   C) required reserves.
   D) Treasury deposits.
   E) excess reserves.

8) Total reserves are the sum of _____ and _____.
   A) required reserves; currency in circulation
   B) vault cash; excess reserves
   C) excess reserves; required reserves
   D) vault cash; bank deposits with the Fed
   E) excess reserves; borrowed reserves.

9) A decrease in government securities held 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) only A and B of the above.

10) The interest rate the Fed charges banks borrowing from the Fed is the
    A) discount rate.
    B) prime rate.
    C) Treasury bill rate.
    D) federal funds rate.
    E) mortgage rate.

11) When the Federal Reserve _____ a government bond in the open market, reserves in the banking
    system _____.
    A) purchase; decline        B) purchases; increase
    C) sells; increase          D) purchase; remain unchanged

12) If a person selling bonds to the Fed cashes the Fed’s check, then reserves _____, but currency in
    circulation _____.
    A) remain unchanged; increases       B) remain unchanged; declines
    C) increase; remains unchanged       D) decline; remains unchanged
13) If a member of the nonbank public sells a government bond to the Federal Reserve in exchange for currency, 
A) the monetary base will rise.  
B) reserves will remain unchanged.  
C) reserves will rise.  
D) both A and B of the above will occur.  

14) When a member of the nonbank public withdraws currency from her bank account, 
A) bank reserves fall, but the monetary base remains unchanged.  
B) both the monetary base and bank reserves rise.  
C) both the monetary base and bank reserves fall.  
D) the monetary base falls, but bank reserves remain unchanged.  

15) When the Federal Reserve extends a discount loan to a bank, the monetary base ____ and reserves ____.
   A) increases; increase  
   B) remains unchanged; increase  
   C) remains unchanged; decrease  
   D) increases; remain unchanged  

16) When the Fed wants to decrease the level of reserves in the banking system, it can 
A) sell government bonds.  
B) extend discount loans to banks.  
C) purchase government bonds.  
D) do both A and C.  

17) A purchase of government bonds by the Fed 
A) is called an open market purchase.  
B) decreases discount loans, all else being the same.  
C) decreases the monetary base, all else being the same.  
D) does all of the above.  

18) Factors that add to the monetary base include 
A) an increase in the Fed’s holding of Treasury securities.  
B) an increase in the Fed’s holding of discount loans.  
C) an increase in Treasury deposits at the Fed.  
D) all of the above.  
E) only A and B of the above.  

19) A decrease in ____ leads to an equal, though temporary, ____ in the monetary base.  
A) foreign currency deposits; increase  
B) float; increase  
C) float; decrease  
D) securities; increase
20) A single bank cannot loan more than its excess reserves because
   A) it is a violation of the Federal Reserve’s Regulation M.
   B) the bank will lose these reserves as the deposits created by the loan find their way to other banks.
   C) the Federal Reserve will refuse to release these reserves to other banks, thereby punishing the bank.
   D) of neither A nor B of the above.

21) In the simple deposit expansion model, if the Fed purchases $100 worth of bonds from a bank that previously had no excess reserves, the bank can now increase its loans by
   A) $100.
   B) $100 times the reciprocal of the required reserve ratio.
   C) $10.
   D) $100 times the required reserve ratio.

22) The formula for the simple deposit multiplier can be expressed as
   A) $\Delta R = (1 \times r_T) \times \Delta D$
   B) $\Delta r = (1 \times r_T) \times \Delta T$
   C) $\Delta D = (1 \times r_D) \times \Delta D$
   D) $\Delta D = (1 \times r_D) \times \Delta R$

23) If the required reserve ratio is 10 percent, the simple deposit multiplier is
   A) 10.0
   B) 100.0.
   C) 5.0.
   D) 2.5.

24) 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 $100 in government bonds.
   B) purchased $1000 in government bonds.
   C) sold $1,000 in government bonds.
   D) purchased $100 in government bonds.

25) If reserves in the banking system increase by $100, then checkable deposits will increase by $667 in the simple model of deposit creation when the required reserve ratio is
   A) 0.05.
   B) 0.01.
   C) 0.20.
   D) 0.15.
Answer Key
Testname: PRACTICE_CH15

1) C
2) E
3) E
4) E
5) E
6) D
7) A
8) C
9) D
10) A
11) B
12) A
13) D
14) A
15) A
16) A
17) A
18) E
19) C
20) B
21) A
22) D
23) A
24) D
25) D