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

1) The Fed uses three policy tools to manipulate the money supply: _____ which affect reserves and the monetary base; changes in _____ which affect reserves and the monetary base by influencing the quantity of discount loans; and changes in _____ which affect the money multiplier.

A) open market operations; the discount rate; margin requirements
B) the discount rate; open market operations; reserve requirements
C) the discount rate; open market operations; margin requirements
D) open market operations; the discount rate; reserve requirements

2) The quantity of reserves demanded equals

A) excess reserves plus discount loans.
B) total reserves minus borrowed reserves.
C) required reserves plus discount loans.
D) total reserves minus excess reserves.
E) required reserves plus excess reserves.

3) In the market for reserves, when the federal funds interest rate is below the discount rate, the supply curve of reserves is

A) positively sloped.
B) backward bending.
C) horizontal.
D) vertical.
E) negatively sloped.

4) In the market for reserves, an open market _____ shifts the supply curve to the _____, raising the federal funds interest rate.

A) sale; right
B) sale; left
C) purchase; left
D) purchase; right

5) In the market for reserves, an open market _____ shifts the supply curve to the left, _____ the federal funds interest rate.

A) sale; raising
B) sale; lowering
C) purchase; raising
D) purchase; lowering

6) In the market for reserves, a _____ discount rate shifts the supply curve to the right, _____ the federal funds interest rate.

A) higher; lowering
B) higher; raising
C) lower; raising
D) lower; lowering
7) In the market for reserves, a higher discount rate shifts the supply curve to the _____ and causes the federal funds interest rate to _____.
   A) right; fall  B) left; fall  C) right; rise  D) left; rise

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**Figure 17-1**

8) In Figure 17-1, a decrease in reserve requirements
   
   A) reduces the supply of reserves from \( R^S_2 \) to \( R^S_1 \), increasing the equilibrium federal funds rate from \( i^1_{ff} \) to \( i^2_{ff} \).

   B) increases the supply of reserves from \( R^S_1 \) to \( R^S_2 \), reducing the equilibrium federal funds rate from \( i^1_{ff} \) to \( i^2_{ff} \).

   C) reduces the demand for reserves from \( R^d_2 \) to \( R^d_1 \), reducing the equilibrium federal funds rate from \( i^1_{ff} \) to \( i^2_{ff} \).

   D) increases the demand for reserves from \( R^d_2 \) to \( R^d_1 \), increasing the equilibrium federal funds rate from \( i^1_{ff} \) to \( i^2_{ff} \).

   E) has no effect on the demand for or supply of reserves.
9) In the market for reserves, an increase in the reserve requirement shifts the ____ curve to the _____ and causes the federal funds interest rate to rise.
   A) demand; left  B) demand; right  C) supply; left  D) supply; right

10) Open market purchases _____ reserves and the monetary base thereby _____ the money supply.
    A) raise; lowering  B) lower; lowering  C) raise; raising  D) lower; raising

11) Open market purchases _____ the _____ thereby _____ the money supply.
    A) raise; monetary base; raising  B) raise; money multiplier; raising  
    C) raise; money multiplier; lowering  D) lower; monetary base; lowering  
    E) lower; monetary base; raising

12) If float is predicted to decrease because of unseasonably good weather, the manager of the trading desk at the Federal Reserve Bank of New York will likely conduct a _____ open market _____ of securities.
    A) dynamic; sale  B) dynamic; purchase  
    C) defensive; sale  D) defensive; purchase

13) If Treasury deposits at the Fed are predicted to _____ the manager of the trading desk at the New York Fed bank will likely conduct _____ open market operations to _____ reserves.
    A) fall; dynamic; drain  B) rise; defensive; drain  
    C) fall; defensive; drain  D) rise; dynamic; inject

14) The Fed offsets a decrease in currency holdings by
    A) making open market purchases.  B) conducting open market sales.  
    C) raising reserve requirements.  D) raising the discount rate.  
    E) lowering margin requirements.

15) Open market operations as a monetary policy tool have the advantages that
    A) they are flexible and precise.  B) they occur at the initiative of the Fed.  
    C) they are easily reversed if mistakes are made.  D) all of the above.

16) The most common type of discount loan, _____ credit loans, are intended to help banks with short-term liquidity problems that often result from temporary deposit outflows.
    A) temporary  B) adjustment  C) extended  D) seasonal
17) When the Fed acts as a lender or last resort, the type of loan it extends is
   A) seasonal credit.
   B) emergency credit.
   C) extended credit.
   D) adjustment credit.
   E) installment credit.

18) A financial panic was averted in October 1987 following "Black Monday" when the Fed announced that
   A) it stood ready to purchase common stocks to prevent a further slide in stock prices.
   B) it was lowering the discount rate on extended credit.
   C) it would provide discount loans to any bank that would make loans to the security industry.
   D) all of the above.

19) An increase in reserve requirements reduces the money supply since it causes
   A) reserves and the monetary base to fall.
   B) reserves to fall.
   C) the money multiplier to fall.
   D) both A and B of the above.

20) Disadvantages of using reserve requirements to control the money supply and interest rates include
   A) their overly-powerful impact on the money supply.
   B) creating potential liquidity problems for banks with low excess reserves.
   C) both A and B of the above.
   D) neither A nor B of the above.
Answer Key
Testname: PRACTICE_CH17

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