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

1) The goals of monetary policy include
   A) output stability.
   B) price stability.
   C) stability of the financial markets.
   D) all of the above.
   E) both B and C of the above.

2) Unemployment resulting from a mismatch of workers' skills and job requirements is called
   A) frictional unemployment.
   B) seasonal unemployment.
   C) structural unemployment.
   D) the natural rate of unemployment.
   E) cyclical unemployment.

3) Supply-side economic policies seek to
   A) increase taxes to encourage saving.
   B) raise interest rates through contractionary monetary policy.
   C) increase consumption expenditures by increasing taxes.
   D) increase saving and investment using tax incentives.
   E) increase federal government expenditures.

4) Upward movements in interest rates
   A) create great hostility toward the central bank and lead to demands that the central bank's power be curtailed.
   B) make it more difficult for construction firms to plan how many houses they should build.
   C) increase consumers' willingness to purchase houses.
   D) do all of the above.
   E) do only A and B of the above.
5) In Figure 18–1, the central bank is targeting
   A) money demand.
   B) the interest rate.
   C) the money supply.
   D) all of the above.
   E) none of the above.

6) Figure 18–1 depicts a situation of
   A) interest rate stability.
   B) instability of money supply.
   C) stability of money demand.
   D) interest rate instability.
   E) none of the above.
7) Referring to Figure 18–2, when money demand fluctuates between \( M_d' \) and \( M_d'' \), a policy of interest rate targeting results in

A) no fluctuations in either the interest rate or money supply.
B) money supply fluctuations between \( M^* \) and \( M^s'' \).
C) money supply fluctuations between \( M^s' \) and \( M^s'' \).
D) interest rate fluctuations between \( i^* \) and \( i' \).
E) interest rate fluctuations between \( i' \) and \( i'' \).

8) Referring to Figure 18–2, the target interest rate \( i^* \) is attained when

A) money demand is \( M_d^* \) and the money supply is \( M^s'' \).
B) money demand is \( M_d^* \) and the money supply is \( M^s' \).
C) money demand is \( M_d^* \) and the money supply is \( M^s'' \).
D) money demand is \( M_d' \) and the money supply is \( M^s^* \).
E) money demand is \( M_d'' \) and the money supply is \( M^s^* \).

9) If the desired intermediate target is an interest rate, then the preferred operating target will be a(n) ____ variable like the ____.

A) monetary aggregate; nonborrowed base    B) interest rate; three-month T-bill rate
C) monetary aggregate; monetary base       D) interest rate; federal funds rate
10) By the end of World War I, the Fed’s policies of rediscounting eligible paper and keeping interest rates low led to
   A) recession as reserves were steadily drained from the banking system.
   B) accelerating inflation.
   C) stable prices and strong economic growth, as predicted by the real bills doctrine.
   D) none of the above.

11) The Federal Reserve’s lack of response to banking panics during the Great Depression can be attributed to
   A) the assumption that failures were due to bad practices or management.
   B) political infighting within the Federal Reserve System.
   C) lack of concern for the smaller banks that experienced most of the failures.
   D) all of the above.
   E) none of the above.

12) During the 1950s, Fed monetary policy targeted
   A) the monetary base.
   B) nonborrowed reserves.
   C) the exchange rate.
   D) discount loans.
   E) interest rates.

13) The Fed’s use of the _____ as an operating target in the 1970s resulted in _____ monetary policy.
   A) federal funds rate; procyclical
   B) federal funds rate; countercyclical
   C) M1 money supply; procyclical
   D) M1 money supply; countercyclical

14) The fluctuations in both money supply growth and the federal funds rate during 1979–1982 suggest that the Fed
   A) had shifted to borrowed reserves as an operating target.
   B) never intended to target monetary aggregates.
   C) had shifted to the monetary base as an operating target.
   D) had shifted to total reserves as an operating target.

15) The fluctuations in both money supply growth and the federal funds rate between October 1982 and the early 1990s suggested that the Fed had shifted to targeting
   A) nonborrowed reserves.
   B) the price of gold.
   C) monetary aggregates.
   D) interest rates.
16) In February 1994, the Fed
A) lowered its federal funds interest rate target.
B) raised its federal funds interest rate target by 3/4s of a percentage point following the collapse of Long-Term Capital Management.
C) abandoned its policy of keeping the federal funds interest rate target a secret.
D) did both A and B of the above.
E) did both B and C of the above.

17) In 1999, the Fed
A) lowered the federal funds interest rate because of concerns about the potential for a world-wide financial crisis in the wake of financial problems in both Asia and Russia.
B) took the dramatic step lowering the federal funds interest rate by 3/4s of a percentage point following the collapse of Long-Term Capital Management in the fall of 1998.
C) raised the federal funds interest rate to deal with a strengthening economy.
D) did none of the above.

18) Starting in February 1994, the Fed
A) began a preemptive strike against inflation by raising the federal funds interest rate in steps to 6 percent by early 1995.
B) lowered the federal funds interest rate target to deal with a possible slowing in the economy.
C) abandoned its policy of keeping the federal funds interest rate target a secret.
D) did both A and B of the above.
E) did both A and C of the above.

19) Federal Reserve monetary policy from 1990 to the present has been characterized by
A) a return to a federal funds operating target.
B) a policy of preemptive strikes to head off future inflationary pressure.
C) a return to monetary aggregate operating targets.
D) both A and B of the above.
E) both B and C of the above.

20) Using Taylor’s rule, when the equilibrium real federal funds rate is 2 percent, there is no output gap, the actual inflation rate is zero, and the target inflation rate is 2 percent, the nominal federal funds rate should be
A) 0 percent.  B) 2 percent.  C) 1 percent.  D) 4 percent.  E) 3 percent.
## Answer Key

Testname: PRACTICE_CH18

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