Question #1 of 93

Money functions as a store of value because:

A) money is accepted as the form of payment for goods.

B) money received for work or goods can be saved to purchase goods or services in the future.

C) prices of goods and services are expressed in units of money.

Question #2 of 93

If a country's economy is growing at an unsustainably rapid rate and the central bank decreases its target overnight interest rate, the country's:

A) long-term rate of economic growth will increase.

B) inflation rate is likely to increase.

C) expected rate of inflation is likely to decline.

Question #3 of 93

When additional or excess reserves are injected into the U.S. banking system, the money supply can potentially increase by an amount equal to the additional excess reserves multiplied by which of the following?

A) Reciprocal of one minus the required reserve ratio.

B) Required reserve ratio.

C) Reciprocal of the required reserve ratio.

Question #4 of 93

To determine whether monetary policy is expansionary or contractionary, an analyst should compare the central bank's policy rate to the:

A) neutral interest rate.

B) trend rate of real growth.

C) target inflation rate.

Question #5 of 93

The crowding-out model implies that a:

A) budget deficit will stimulate aggregate demand and trigger a multiplier effect which will lead to inflation.

B) budget surplus will retard aggregate demand and trigger an economic downturn.

C) budget deficit will increase the real interest rate and thereby retard private investment.

Question #6 of 93

Which of the following is currently the most-used target for central banks?

A) Inflation targeting.

B) Money supply targeting.

C) Interest rate targeting.

Question #7 of 93

What are the three essential qualities an effective central bank should possess?

A) Independence, credibility, and transparency.

B) Transparency, comprehensiveness, and consistency.

C) Understandability, relevance, and reliability.

Question #8 of 93

The time it takes for policy makers to enact a fiscal policy action is *best* described as:

A) implementation lag.

B) action lag.

C) legislative lag.

Question #9 of 93

If a central bank's targeted inflation rate is above the current rate, the central bank is *most likely* to:

A) increase the overnight lending rate.

B) buy government securities.

C) increase the reserve requirement.

Question #10 of 93

If the U.S. Federal Reserve decides to decrease the money supply, which of the following is *most likely* to occur in the short run?

A) A decrease in the unemployment rate.

B) An increase in the real rate of interest.

C) An increase in the velocity of money similar to decrease in the money supply.

Question #11 of 93

The Fisher effect describes a nominal interest rate as the:

A) actual inflation rate less the real interest rate.

B) expected inflation rate plus the real interest rate.

C) expected inflation rate less the real interest rate.

Question #12 of 93

The Fisher effect holds that a nominal rate of interest equals a real rate:

A) plus expected inflation.

B) plus actual inflation.

C) minus expected inflation.

Question #13 of 93

The supply of money is primarily determined by:

A) interest rates.

B) inflation.

C) the monetary authorities.

Question #14 of 93

Assuming the economy currently is experiencing high inflation, an example of appropriate discretionary fiscal policy is:

A) reduce government expenditures on major government construction projects.

B) reduce the money supply.

C) increase the federal funds target rate.

Question #15 of 93

Which of the following statements *best* explains how automatic stabilizers work? Even without a change in fiscal policy, automatic stabilizers tend to promote:

A) a budget deficit during a recession but do not promote a budget surplus during an inflationary expansion.

B) a budget surplus during a recession and a budget deficit during an inflationary expansion.

C) a budget deficit during a recession and a budget surplus during an inflationary expansion.

Question #16 of 93

An economy's long-term trend rate of real GDP growth is 3% and the central bank's target inflation rate is 2%. If the policy rate is 6%, monetary policy is:

A) neutral.

B) expansionary.

C) contractionary.

Question #17 of 93

An argument against being concerned with the size of a fiscal deficit is that a deficit can:

A) lead to higher future taxes that will increase government revenues.

B) cause government borrowing to crowd out private borrowing.

C) aid in increasing GDP and employment if the economy is operating at less than potential GDP.

Question #18 of 93

The open market sale of Treasury securities by the Federal Reserve is *least likely* to result in:

A) a decreased rate of inflation.

B) increased longer-term interest rates.

C) increased exports of U.S. goods.

Question #19 of 93

Which of the following is *least likely* a function or objective of a central bank?

A) Issuing currency.

B) Lending money to government agencies.

C) Keeping inflation within an acceptable range.

Question #20 of 93

A central bank has operational independence if it can independently determine:

A) the policy rate.

B) how inflation is calculated.

C) the horizon over which to achieve its inflation target.

Question #21 of 93

A central bank follows an inflation targeting monetary policy. If the permissible band is plus-or-minus 2% around the target inflation rate, the central bank is *most likely* to choose a target inflation rate of:

A) 0%.

B) 3%.

C) 1%.

Question #22 of 93

Silvano Jimenez, an analyst at Banco del Rey, is reviewing recent actions taken by the U.S. Federal Reserve (the Fed) in setting monetary policy. Recently, the Fed decided to increase the money supply, which has resulted in a decrease in real interest rates. At a staff meeting, Jimenez brings this matter to the attention of his colleagues and makes the following statements:

Statement 1: Although the money supply increase has led to a decrease in real interest rates, we should begin to see U.S. investors decrease their investments abroad and the U.S. dollar will appreciate in the foreign exchange market.

Statement 2: The Fed's increase in the money supply will increase the amount of imports into the U.S.

Are Statement 1 and Statement 2 as made by Jimenez CORRECT?

	Statement 1	Statement 2
A)	Incorrect	Correct

B)	Incorrect	Incorrect
C)	Correct	Incorrect

Question #23 of 93

The country of Zurkistan is experiencing both high interest rates and high inflation. The government passes laws that reduce government spending and increase taxes. It takes many months before interest rates fall and inflation is reduced. This is an example of:

A) impact lag in discretionary fiscal policy.

B) recognition lag in discretionary fiscal policy.

C) action lag and automatic stabilizers.

Question #24 of 93

Which of the following statements about achieving proper timing in fiscal policy is *least* accurate?

A) Improvements in quantitative methods have made the occurrence of recessions or expansions quite predictable.

B) Policy errors are inevitable due to unpredictable events.

C) There is usually a time lag between when a change in policy is needed and when the need is recognized by policy makers.

Question #25 of 93

Attempting to influence economic growth and inflation by changing tax rates and government spending is *best* described as:

A) government policy.

B) monetary policy.

C) fiscal policy.

Question #26 of 93

Which of the following fiscal and monetary policy scenarios is *most likely* to increase the size of the public sector relative to the private sector?

A) Expansionary fiscal policy and contractionary monetary policy.

B) Contractionary fiscal and monetary policy.

C) Expansionary monetary policy and contractionary fiscal policy.

Question #27 of 93

The amount of money a commercial bank has available to lend is known as:

A) excess reserves.

B) required reserves.

C) fractional reserves.

Question #28 of 93

The primary objective of a central bank is to:

A) control inflation.

B) stabilize exchange rates.

C) achieve full employment.

Question #29 of 93

Money serves as a unit of account because:

A) prices of goods and services are expressed in units of money.

B) money is accepted as the form of payment for goods.

C) money received for work or goods can be saved to purchase goods or services in the future.

Question #30 of 93

A country is experiencing a core inflation rate of 7% during a recessionary period of real GDP growth. If the central bank has a single mandate to achieve price stability and uses inflation targeting with an acceptable range of zero to 4%, its monetary policy response is *most likely* to decrease:

A) short-term interest rates.

B) the foreign exchange value of the country's currency.

C) GDP growth in the short run.

Question #31 of 93

Arguments for being concerned about the size of a fiscal deficit *least likely* include:

A) Ricardian equivalence.

B) a reduction in long-term economic growth.

C) the crowding-out effect.

Question #32 of 93

The three reasons for holding money are most accurately described as:

A) broad money demand, narrow money demand, and transaction demand.

B) narrow money demand, precautionary demand, and speculative demand.

C) transaction demand, precautionary demand, and speculative demand.

Question #33 of 93

Unemployment compensation is an example of:

A) an automatic monetary policy stabilizer.

B) a discretionary fiscal policy stabilizer.

C) an automatic fiscal policy stabilizer.

Question #34 of 93

Assuming the federal government maintains a balanced budget, the *most likely* effects of a tax increase on government expenditures and real GDP are:

	Government Expenditures	Real GDP
A)	Decrease	Decrease
B)	Increase	Increase
C)	Increase	Decrease

Question #35 of 93

Frequent changes in advertised prices are one of the costs of:

A) both expected and unexpected inflation.

B) unexpected inflation only.

C) expected inflation only.

Question #36 of 93

Robert Necco and Nelson Packard are economists at Economic Research Associates. ERA asks Necco and Packard for their opinions about the effects of fiscal policy on real GDP for an economy currently experiencing a recession. Necco states that real GDP is likely to increase if both government spending and taxes are increased by the same amount. Packard states that if both government spending and taxes are increased by the same amount, there is no expected net effect on real GDP.

Are the statements made by Necco and Packard CORRECT?

	Necco	Packard
A)	Correct	Incorrect
B)	Incorrect	Correct
C)	Incorrect	Incorrect

Question #37 of 93

Central banks pursuing expansionary policies may:

A) decrease the policy rate and make open market purchases of securities.

B) decrease the policy rate and make open market sales of securities.

C) increase the policy rate and make open market purchases of securities.

Question #38 of 93

When comparing a barter economy with an economy that uses money as a medium of exchange we would expect increased efficiencies due to a reduction in which of the following?

A) Transaction costs.

B) The need to specialize.

C) Nominal interest rates.

Question #39 of 93

A distinction between fiscal policy and monetary policy is that fiscal policy:

A) is aimed at promoting economic growth, while monetary policy is aimed at promoting price stability.

B) concerns taxes and government spending, while monetary policy concerns the money supply.

C) is typically expansionary, while monetary policy is typically contractionary.

Question #40 of 93

Monetary policy refers to actions that influence economic activity by increasing or decreasing:

A) government purchases of goods and services.

B) the supply of money and credit.

C) tax rates on income and consumption.

Question #41 of 93

According to the quantity theory of money, if nominal GDP is $7 trillion, the price index is 150, and the money supply is $1 trillion, then the velocity of the money supply is *closest* to:

A) 4.7.

B) 10.5.

C) 7.0.

Question #42 of 93

A government that is implementing a contractionary fiscal policy is *most likely* to:

A) increase spending on public works.

B) decrease income tax rates.

C) decrease transfer payments to households.

Question #43 of 93

If households are holding larger real money balances than they desire, which of the following is *least likely*?

A) The interest rate is higher than its equilibrium rate in the market for real money balances.

B) The central bank must issue securities to absorb the excess money supply and establish equilibrium.

C) The opportunity cost of holding money balances will decrease.

Question #44 of 93

The *most likely* reason for deflation to persist despite expansionary monetary policy is:

A) a liquidity trap.

B) bond market vigilantes.

C) inelastic demand for money.

Question #45 of 93

Policies that can be used as tools for redistribution of wealth and income include:

A) monetary policy only.

B) fiscal policy only.

C) both fiscal policy and monetary policy.

Question #46 of 93

Contractionary monetary policy is *least likely* to decrease consumption spending by decreasing:

A) expectations for economic growth.

B) securities prices.

C) the foreign exchange value of the currency.

Question #47 of 93

Compared to the costs of inflation that is unexpected, costs of inflation that iscorrectly anticipated are *most likely* to be:

A) more severe.

B) less severe.

C) equally severe.

Question #48 of 93

Assume the Federal Reserve purchases $1 billion of securities in the open market. What is the maximum increase in the money supply that can result from this action, if the required reserve ratio is 15%?

A) $1.00 billion.

B) $6.67 billion.

C) $850 million.

Question #49 of 93

Which of the following policy tools is the *least likely* to be available to the U.S. Federal Reserve Board?

A) Requiring the banking system to tighten or loosen its credit policies.

B) Buying and selling Treasury securities in the open market.

C) Setting the discount rate at which banks can borrow from the Federal Reserve.

Question #50 of 93

An example of a contractionary fiscal policy change is a(n):

A) increase in a fiscal surplus.

B) increase in a fiscal deficit.

C) decrease in a fiscal surplus.

Question #51 of 93

Central banks are *most likely* to pursue a target inflation rate:

A) above 3%.

B) equal to 0%.

C) between 0 and 3%.

Question #52 of 93

The government budget deficit of Country M is increasing. At the same time, the government budget surplus of Country N is decreasing. Are the fiscal policies of these countries expansionary or contractionary?

A) Both are contractionary.

B) One is expansionary and one is contractionary.

C) Both are expansionary.

Question #53 of 93

If a bank receives a deposit of $1 million in cash which has been held outside the banking system and the reserve requirement is 10%, the maximum increase in the money supply that could result is:

A) $900,000.

B) $100,000.

C) $10,000,000.

Question #54 of 93

When the Federal Reserve sells government securities on the open market, bank reserves are:

A) decreased, which reduces the amount of money banks are able to lend, causing an increase in the federal funds rate.

B) increased, which increases the amount of money banks are able to lend, causing a decrease in the federal funds rate.

C) decreased, which reduces the amount of money banks are able to lend, causing a decrease in the federal funds rate.

Question #55 of 93

The term "automatic stabilizers" refers to:

A) increases in transfer payments and decreases in tax revenues that result from an economic contraction without new legislation.

B) changes in taxes and expenditure programs legislators automatically enact in response to changes the level of economic activity in order to smooth economic cycles.

C) government expenditures and tax receipts that are required to balance over the course of the business cycle, although they may be out of balance in any single year.

Question #56 of 93

If a monetary policy is focused on combating inflation, which open market actions by the Federal Reserve will *most* effectively accomplish this?

A) Sell Treasury securities, causing aggregate demand to increase.

B) Purchase Treasury securities, causing aggregate demand to decrease.

C) Sell Treasury securities, causing aggregate demand to decrease.

Question #57 of 93

Which of the following statements regarding money demand and supply is *least* accurate?

A) As the Fed reduces the money supply, short-term interest rates decrease.

B) The supply of money is determined by the monetary authority and is not affected by changes in interest rates.

C) The supply curve for money is vertical.

Question #58 of 93

Which of the following is *least likely* to be a function of the central bank?

A) Control money supply.

B) Tax collection.

C) Issue currency.

Question #59 of 93

Which of the following conditions is difficult for monetary policy to address because a central bank cannot reduce its nominal policy rate much below zero?

A) Deflation.

B) Stagflation.

C) Inflation.

Question #60 of 93

If the money interest rate is measured on the y-axis and the quantity of money is measured on the x-axis, the money supply curve is:

A) vertical.

B) upward sloping to the upper right.

C) downward sloping to the lower right.

Question #61 of 93

The demand for money curve represents the relationship between the quantity of money demanded and:

A) short-term interest rates.

B) the quantity of money supplied.

C) the price level.

Question #62 of 93

When the central bank reduces the quantity of money and credit in an economy, its monetary policy is *best* described as:

A) contractionary.

B) expansionary.

C) accommodative.

Question #63 of 93

The time it takes for a fiscal policy action to affect the economy is *best* described as:

A) economic lag.

B) impact lag.

C) fiscal lag.

Question #64 of 93

Arguments against being concerned about the size of a fiscal deficit include:

A) higher future taxes.

B) Ricardian equivalence.

C) the crowding-out effect.

Question #65 of 93

Which of the following statements about the relationship between interest rates and the demand for and supply of money is *most* accurate? Interest rates affect:

A) the supply of money only.

B) both the demand for and supply of money.

C) the demand for money only.

Question #66 of 93

Central banks that are able to define how inflation is computed and determine its desired level are *best* described as having:

A) transparency.

B) target independence.

C) operational independence.

Question #67 of 93

Which of the following statements regarding the monetary policy transmission mechanism is *most* accurate?

A) Central banks can control long-term interest rates directly because decisions by consumers and businesses are based on these rates.

B) Central banks can control short-term interest rates by increasing the money supply to increase interest rates or by decreasing the money supply to decrease interest rates.

C) Central banks can control short-term interest rates directly, but long-term interest rates are beyond their control.

Question #68 of 93

Banks choose to hold a higher percentage of deposits as reserves because they believe general business conditions in the economy are subject to greater uncertainty. If all else is held constant, what is the *most likely* impact of this action?

A) There will be no effect on the money supply.

B) The money supply will decrease.

C) The money supply will increase during a period of inflation, but will decrease if the economy goes into a recession.

Question #69 of 93

Which of the following is the *most* accurate definition of the velocity of money? The velocity of money is the:

A) money supply of a country divided by its price level.

B) GDP of a country divided by its price level.

C) GDP of a country divided by its money supply.

Question #70 of 93

Which of the following statements *best* explains the importance of the timing of changes in discretionary fiscal policy? Changes in discretionary fiscal policy must be timed properly if they are going to:

A) enable the government to control the money supply.

B) exert a stabilizing influence on an economy.

C) help the government achieve a balanced budget.

Question #71 of 93

An individual has just purchased a home by taking on a 30-year fixed rate mortgage. She would benefit *most* from this transaction if future inflation rates are:

A) higher than anticipated.

B) exactly as anticipated.

C) lower than anticipated.

Question #72 of 93

If a central bank implements an exchange rate targeting policy successfully, the country's inflation rate is *most likely* to be:

A) the same as that of the target currency.

B) greater than that of the target currency.

C) less than that of the target currency.

Question #73 of 93

An analyst has determined the projected trend rate of real GDP growth is 2.5% and the central bank's inflation target is 2.5%. If the central bank policy rate is 5.0%, monetary policy is *most likely*:

A) neutral.

B) expansionary.

C) contractionary.

Question #74 of 93

Which of the following is determined by the equilibrium between the demand for money and the supply of money?

A) Inflation rate.

B) Interest rate.

C) Money supply.

Question #75 of 93

When an economy dips into a recession, automatic stabilizers will tend to alter government spending and taxation so as to:

A) reduce interest rates, thus stimulating aggregate demand.

B) enlarge the budget deficit (or reduce the surplus).

C) reduce the budget deficit (or increase the surplus).

Question #76 of 93

The time it takes for policy makers to determine that the economy requires a fiscal policy action is *best* described as:

A) recognition lag.

B) action lag.

C) impact lag.

Question #77 of 93

Which one of the following Federal Reserve monetary policies, when pursued in line with the U.S. government's fiscal policies, would help increase aggregate demand during a period of high unemployment?

A) A decrease in the discount rate.

B) An increase in the reserve requirements for financial institutions.

C) The sale of bonds by the Fed.

Question #78 of 93

Which of the following is the *most likely* result of a central bank's shift to an expansionary monetary policy?

A) Exports increase.

B) Interest rates increase.

C) Domestic currency appreciates.

Question #79 of 93

Which of the following statements about the demand for and supply of money is *least* accurate?

A) As inflation rises, the demand for money by households and businesses also rises.

B) As gross domestic product rises, the demand for money balances also rises.

C) As the interest rate rises, the supply of money also rises.

Question #80 of 93

On January 5, the U.S. Federal Reserve (the Fed) bought $10,000,000 of U.S. Treasury securities in the open market. At the time, the reserve requirement was 25%, and all banks had zero excess reserves. What is the potential impact of the Fed's purchase on the U.S. money supply?

A) $10,000,000 increase.

B) $40,000,000 increase.

C) $25,000,000 decrease.

Question #81 of 93

Fiscal policy includes a government's:

A) spending, tax, and monetary policies.

B) spending and tax policies only.

C) tax policies only.

Question #82 of 93

Promoting economic growth and price stability are the goals of:

A) fiscal policy, but not monetary policy.

B) monetary policy, but not fiscal policy.

C) both fiscal and monetary policy.

Question #83 of 93

Assume the U.S. economy is undergoing a recession. In its efforts to stimulate the economy by trying to influence short-term interest rates the Fed is *most likely* to take which two actions?

A) Sell Treasury securities and decrease bank reserve requirements.

B) Buy Treasury securities and decrease bank reserve requirements.

C) Sell Treasury securities and increase bank reserve requirements.

Question #84 of 93

Which of the following statements about the demand and supply of money is *most* accurate? People who are:

A) holding money when interest rates are higher will try to reduce their money balances and, as a result, the demand for money decreases.

B) buying bonds to reduce their money balances will increase the demand for bonds with an associated increase in interest rates.

C) holding money when interest rates are lower will try to increase their money balances and, as a result, the supply of money increases.

Question #85 of 93

If the Federal Reserve wishes to lower market interest rates without changing the discount rate, it can:

A) increase bank reserve requirements.

B) buy Treasury securities.

C) raise the yield on Treasury securities.

Question #86 of 93

Policies used with the goal of maintaining stable prices and producing economic growth include:

A) monetary policy only.

B) fiscal policy only.

C) both fiscal policy and monetary policy.

Question #87 of 93

Xanadu attempts to decrease its inflation rate by implementing contractionary monetary policy. Which of the following is *most likely* to be the long-run effect on Xanadu's trade balance as a result of the monetary policy change?

A) Worsen.

B) Improve.

C) Remain the same.

Question #88 of 93

Discretionary fiscal policy refers to:

A) active decisions regarding spending and taxing to affect economic growth.

B) increasing aggregate demand through lower interest rates.

C) built-in devices that counteract the business cycle phase.

Question #89 of 93

Which of the following relationships in regard to the quantity theory of money is *least* accurate?

A) Money × Velocity = Money Supply × Velocity.

B) Nominal GDP = Price × Money Supply.

C) Nominal GDP = Money Supply × Velocity = Price × Real Output.

Question #90 of 93

The government is reducing its spending to balance the budget, while the central bank is lowering its official policy rate. What will *most likely* be the combined effect on the economy?

A) The public and private sectors as a percentage of GDP will neither decrease nor increase.

B) The private sector as a percentage of GDP will increase.

C) The public sector as a percentage of GDP will increase.

Question #91 of 93

Which of the following statements regarding U.S. Federal Reserve open market operations is *least* accurate?

A) If the Fed wants to stimulate the economy, it will sell Treasury securities to banks.

B) When the Fed buys Treasury securities, short-term interest rates will generally decrease.

C) When the Fed sells Treasury securities, excess reserves decrease.

Question #92 of 93

If a bank needs to borrow funds from the Federal Reserve to fund a temporary shortage in reserves, it would borrow funds at the:

A) prime rate.

B) discount rate.

C) federal funds rate.

Question #93 of 93

According to the Fisher effect, which of the following interest rates includes a premium for the expected rate of inflation?

A) Neither yields on short-term government debt nor yields on long-term corporate debt.

B) Yields on long-term corporate debt, but not yields on short-term government debt.

C) Both yields on short-term government debt and yields on long-term corporate debt.