Name: ___________________________ Date: _____________

1. The Federal Reserve is able to have an impact on financial crises because it:
   A) determines tax rates.
   B) determines government spending.
   C) conducts monetary policy.
   D) is responsive to the people who elected its members to office.

2. The short-term interest rate is the interest rate on financial assets that mature within:
   A) less than a year.
   B) a year or more.
   C) 2 years.
   D) 5 years.

3. We hold money to:
   A) earn interest.
   B) reduce transaction costs.
   C) increase transaction costs
   D) protect our purchasing power.

4. Short-term interest rates refer to rates on financial assets due within:
   A) 24 hours.
   B) 3 months or less.
   C) 6 months or less.
   D) 1 year or less.

5. The interest earnings one gives up in order to hold more liquid assets are:
   A) an opportunity cost.
   B) a transaction cost.
   C) an asset of the company.
   D) a liability of the company.

6. If the Federal Reserve wants to lower interest rates, it can:
   A) decrease the money supply by selling Treasury bills.
   B) decrease the money supply by buying Treasury bills.
   C) increase the money supply by selling Treasury bills.
   D) increase the money supply by buying Treasury bills.

7. When the Federal Reserve buys Treasury bills, this leads to:
   A) a decrease in the money supply.
   B) an increase in the money supply.
   C) an increase in short-term interest rates.
   D) an increase in the Federal Reserve funds rate.

8. If the Federal Reserve wants to lower the interest rate, it will:
   A) decrease the money supply.
   B) increase the money supply.
   C) keep the money supply unchanged.
   D) mandate a lower interest rate.

9. A sale of bonds by the Federal Reserve:
   A) raises interest rates and increases the money supply.
   B) raises interest rates and reduces the money supply.
   C) lowers interest rates and reduces the money supply.
   D) lowers interest rates and increases the money supply.

10. An increase in the supply of money with no change in demand for money will lead to _______ in the equilibrium quantity of money and _______ in the equilibrium interest rate.
    A) an increase; a rise
    B) an increase; a fall
    C) a decrease; a rise
    D) a decrease; a fall

11. A decrease in the supply of money with no change in demand for money will lead to_______ in the equilibrium quantity of money and _______ in the equilibrium interest rate.
    A) an increase; a rise
    B) an increase; a fall
    C) a decrease; a rise
    D) a decrease; a fall

12. Suppose the Federal Reserve buys bonds. We can expect this transaction to:
    A) reduce the money supply, increase bond prices, and lower interest rates.
    B) increase the money supply, lower bond prices, and lower interest rates.
    C) increase the money supply, raise bond prices, and lower interest rates.
    D) reduce the money supply, reduce bond prices, and raise interest rates.

13. Suppose the Federal Reserve sells bonds. We can expect this transaction to:
    A) reduce the money supply, increase bond prices, and lower interest rates.
    B) increase the money supply, lower bond prices, and lower interest rates.
    C) increase the money supply, raise bond prices, and lower interest rates.
    D) reduce the money supply, reduce bond prices, and raise interest rates.

14. If during 2007 the interest rate on 1-month Treasury bills was 2.5% and during 2008 the interest rate on 1-month Treasury bills was 2%, one would conclude that:
    A) the opportunity cost of holding money decreased.
    B) the opportunity cost of holding money became negative.
    C) the opportunity cost of holding money increased.
    D) the opportunity cost of holding money did not change.

Name: __________________________ Date: _____________

Use the following to answer question 15:

Table: Components of the Money System

Components of the Money System (billions of dollars)	
Currency	$100
Checkable deposits	300
Travelers checks	50
Small-denomination time deposits	700
Savings deposits	75
Money market mutual funds (individuals)	500
Large-denomination time deposits	200

15. (Table: Components of the Money Supply) Refer to the information in the table. The money supply measured by M1 is:
    A) $325 billion.
    B) $450 billion.
    C) $1,425 billion.
    D) $1,875 billion.

Use the following to answer question 16:

Table: Balance Sheet

Assets		Liabilities	
Reserves	$20,000	Deposits	________
Loans	________		

16. (Table: Balance Sheet) Refer to the information in the balance sheet. If the reserve ratio is 25%, deposits are:
    A) $5,000.
    B) $15,000.
    C) $60,000.
    D) $80,000.

Use the following to answer question 17:

Table: Components of the Money System

Components of the Money System (billions of dollars)	
Currency	$100
Checkable deposits	300
Travelers checks	50
Small-denomination time deposits	700
Savings deposits	75
Money market mutual funds (individuals)	500
Large-denomination time deposits	200

17. (Table: Components of the Money Supply) Refer to the information in the table. The money supply measured by M2 is:
    A) $450 billion.
    B) $1,425 billion.
    C) $1,725 billion.
    D) $2,075 billion.

Use the following to answer question 18:

Table: Balance Sheet

Assets		Liabilities	
Reserves	$20,000	Deposits	________
Loans	________		

18. (Table: Balance Sheet) Refer to the information in the balance sheet. If the reserve ratio is 25%, loans are:
    A) $5,000.
    B) $15,000.
    C) $60,000.
    D) $80,000.

Use the following to answer questions 19-20:

Scenario: Holding Cash
Suppose that the public holds 50% of the money supply in currency and the reserve requirement is 20 percent. Banks hold no excess reserves. A customer deposits $6,000 in her checkable deposit.

19. (Scenario: Holding Cash) As a result of the deposit, required reserves will increase by:
    A) $0
    B) $1,200
    C) $3,000
    D) $6,000

20. (Scenario: Holding Cash) As a result of the deposit, the bank's loans will increase by:
    A) $6,000
    B) $1,200
    C) $3,000
    D) $4,800

Name: ___________________________ Date: _____________

1. Open-economy macroeconomics is the branch of economics that deals with:
   A) reducing regulations on business.
   B) the relationships between economies of different nations.
   C) reducing employment discrimination.
   D) the provision of financial information to investors.

2. If the United States imports more goods from Japan than it exports to Japan, how can the difference be financed?
   A) U.S. consumers would simply borrow money from domestic banks.
   B) The United States could buy more Japanese assets.
   C) The United States could sell assets and create a liability obligating Americans to pay for those imports in the future.
   D) The United States could sell assets to the Japanese, which would reduce its liabilities.

3. If assets owners in Japan and the United States consider Japanese and U.S. assets as good substitutes for each other and if the U.S. interest rate is 5% and the Japanese interest rate is 2%, then all of the following will occur EXCEPT that:
   A) financial inflows will reduce the U.S. interest rate.
   B) financial outflows will increase the Japanese interest rate.
   C) the interest rate gap between the United States and Japan will be eliminated.
   D) loanable funds will be exported from the United States to Japan.

4. If asset owners in Japan and the United States consider Japanese and U.S. assets as good substitutes for each other and if the U.S. interest rate is 5% while the Japanese interest rate is 2%:
   A) financial inflows will reduce the U.S. interest rate.
   B) financial outflows will reduce the Japanese interest rate.
   C) the interest rate gap between the United States and Japan will grow.
   D) financial inflows will increase the U.S. interest rate.

5. If foreign countries are increasing their demand for U.S. financial assets, then we can expect the U.S. dollar to ______ and the current account balance to _____, all other things equal.
   A) appreciate; increase
   B) appreciate; decrease
   C) depreciate; increase
   D) depreciate; decrease

6. If the U.S. dollar depreciates relative to currencies in other countries, then U.S. imports:
   A) and exports will both increase.
   B) and exports will both decrease.
   C) will decrease and exports will increase.
   D) will increase and exports will decrease.

7. If the exchange rate is 8 Chinese yuan per U.S. dollar, the U.S. price index is 145, and the Chinese price index is 206, the real exchange rate is:
   A) 11.36 yuan.
   B) 7.62 yuan.
   C) 5.63 yuan.
   D) 0.08 yuan.

8. If the exchange rate is $1.50 per euro, the U.S. price level is 180, and the Eurozone price level is 120, then the real exchange rate is:
   A) $1.
   B) $1.50.
   C) $2.40.
   D) $1.20.

9. The real exchange rate between the U.S. dollar and the Indian rupee is the:
   A) exchange rate between the dollar and the rupee.
   B) exchange rate between the dollar and the rupee divided by the price level in India.
   C) amount of Indian rupees per dollar multiplied by the relative price levels in the United States and India.
   D) official exchange rate between the dollar and the rupee quoted by the banks in the United States and India.

10. Purchasing power parity refers to:
    A) how many units of foreign currency a dollar will buy.
    B) how many foreign assets the United States is buying.
    C) how many foreign assets a foreign country is buying.
    D) the nominal exchange rate for which a market basket would cost the same in each country.

11. U.S. exports increased in 2006 because:
    A) NAFTA was repealed.
    B) a global currency was established.
    C) the dollar depreciated.
    D) the dollar appreciated.

12. If the U.S. dollar depreciates, other things being equal, then:
    A) the U.S. financial account is in surplus.
    B) exports from the United States to other countries will decrease.
    C) it falls in value against some other currency.
    D) the U.S. current account is in deficit.

13. A decrease in U.S. interest rates causes the dollar to _____ and aggregate demand to ______.
    A) depreciate; increase
    B) depreciate; decrease
    C) appreciate; increase
    D) appreciate; decrease

14. An increase in U.S. interest rates causes a decrease in aggregate demand by:
    A) increasing investment, appreciating the dollar, and increasing imports.
    B) decreasing investment, appreciating the dollar, and increasing imports.
    C) increasing investment, depreciating the dollar, and increasing exports.
    D) decreasing investment, depreciating the dollar, and decreasing exports.

15. The nominal exchange rate:
    A) is adjusted for inflation.
    B) always equals the purchasing power parity.
    C) is unadjusted for inflation.
    D) affects the current account.

16. All other things being equal, if the economy of Europe expands rapidly and this increases tourism dramatically in the United States, which of the following will be the likely result?
    A) The euro will appreciate.
    B) The U.S. dollar will appreciate.
    C) The demand for the dollar will fall.
    D) The demand for the euro will fall.

17. If the supply of U.S. dollars in Britain increases, then all of the following occurs EXCEPT that:
    A) the dollar depreciates against the British pound.
    B) the British pound appreciates against the dollar.
    C) the dollar price of the pound increases.
    D) the dollar appreciates.

18. If the demand for British pounds in the United States rises, then:
    A) the U.S. dollar appreciates.
    B) the British pound price of the U.S. dollar increases.
    C) the U.S. dollar price of the British pound increases.
    D) the pound depreciates.

Use the following to answer questions 19-20:

Scenario: Exchange Rates
The value of a euro goes from US$1.25 to US$1.50.

19. (Scenario: Exchange Rates) Refer to the information provided in the scenario. In Germany, exports:
    A) will increase, and imports will decrease.
    B) and imports will increase.
    C) will decrease, and imports will increase.
    D) and imports will decrease.

20. (Scenario: Exchange Rates) Refer to the information provided in the scenario. French exports to the United States will:
    A) be cheaper.
    B) be more expensive.
    C) be unaffected.
    D) increase.