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