



50. The transactions demand for money in the above market for money would graph as a:  
 A) vertical line. C) line sloping downward and to the right.  
 B) horizontal line. D) line sloping upward and to the right.  
 Ans:
51. The total demand for money curve in the above market for money would graph as a:  
 A) vertical line. C) line sloping upward to the right.  
 B) horizontal line. D) line sloping downward to the right.  
 Ans:
52. At equilibrium in the above market for money, the total amount of money demanded is:  
 A) \$500. B) \$480. C) \$460. D) \$440.  
 Ans:
53. Refer to the above table. The equilibrium interest rate is:  
 A) 2 percent. B) 4 percent. C) 6 percent. D) 8 percent.  
 Ans:
54. Refer to the above table. An increase in the money supply of \$20 billion will cause the equilibrium interest rate to:  
 A) fall by 4 percentage points. C) rise by 4 percentage points.  
 B) fall by 2 percentage points. D) rise by 2 percentage points.  
 Ans:
116. The discount rate is the rate of interest at which:  
 A) Federal Reserve Banks lend to commercial banks.  
 B) savings and loan associations lend to some builders.  
 C) Federal Reserve Banks lend to large corporations.  
 D) commercial banks lend to large corporations.  
 Ans:
122. The Fed sets the discount rate at 1 percentage point above:  
 A) the prime lending rate. C) the rate of inflation.  
 B) the Fed target for the Federal funds rate. D) the rate paid on series EE saving bonds .  
 Ans:
124. Which of the following tools of monetary policy is considered the most important?  
 A) the discount rate C) open market operations  
 B) the reserve ratio D) the Federal funds rate  
 Ans:
152. To increase the Federal funds rate, the Fed can:  
 A) buy government bonds from the public.  
 B) decrease the discount rate.  
 C) decrease the prime interest rate.  
 D) sell government bonds to commercial banks.  
 Ans:

153. In recent years the Fed has communicated changes in its monetary policy by announcing changes in its policy targets for the:
- A) growth of the money supply.
  - B) Federal funds rate.
  - C) prime interest rate.
  - D) U.S. dollar-foreign currency exchange rate.

Ans:

154. The prime interest rate:
- A) affects investment spending while the Federal funds rate affects consumption spending.
  - B) affects consumption spending while the Federal funds rate affects investment spending.
  - C) has no effect on exchange rates and net exports.
  - D) affects investment spending while the Federal funds rate affects overnight borrowing of bank reserves.

Ans:

156. The Federal funds rate is:
- A) higher than both the prime interest rate and the discount rate.
  - B) lower than both the prime interest rate and the discount rate.
  - C) higher than the prime interest rate but lower than the discount rate.
  - D) lower than the prime interest rate but higher than the discount rate.

Ans:

157. If the Fed wants to lower the Federal funds rate, it should:
- A) increase the discount rate.
  - B) increase the reserve ratio.
  - C) buy government securities in the open market.
  - D) sell government securities in the open market.

Ans:

173. If the Federal Reserve authorities were attempting to reduce demand-pull inflation, the proper policies would be to:
- A) sell government securities, raise reserve requirements, and raise the discount rate.
  - B) buy government securities, raise reserve requirements, and raise the discount rate.
  - C) sell government securities, lower reserve requirements, and lower the discount rate.
  - D) sell government securities, raise reserve requirements, and lower the discount rate.

Ans:

174. A contraction of the money supply:
- A) increases the interest rate and decreases aggregate demand.
  - B) increases both the interest rate and aggregate demand.
  - C) lowers the interest rate and increases aggregate demand.
  - D) lowers both the interest rate and aggregate demand.

Ans:

181. If the economy were encountering a severe recession, proper monetary and fiscal policies would call for:
- A) selling government securities, raising the reserve ratio, lowering the discount rate, and a budgetary surplus.
  - B) buying government securities, reducing the reserve ratio, reducing the discount rate, and a budgetary deficit.
  - C) buying government securities, raising the reserve ratio, raising the discount rate, and a budgetary surplus.
  - D) buying government securities, reducing the reserve ratio, raising the discount rate, and a budgetary deficit.

Ans:

192. An increase in the money supply will:
- A) lower interest rates and lower the equilibrium GDP.
  - B) lower interest rates and increase the equilibrium GDP.
  - C) increase interest rates and increase the equilibrium GDP.
  - D) increase interest rates and lower the equilibrium GDP.

Ans:

199. The price of government bonds and the interest rate received by a bond buyer are:
- A) positively related.
  - B) unrelated.
  - C) negatively related.
  - D) independent of Federal Reserve open-market operations.

Ans:

200. A restrictive monetary policy is designed to shift the:
- |                                      |                                      |
|--------------------------------------|--------------------------------------|
| A) aggregate demand curve rightward. | C) aggregate supply curve rightward. |
| B) aggregate demand curve leftward.  | D) aggregate supply curve leftward.  |

Ans:

1. What is the goal of monetary policy?
  
  
  
  
  
  
  
  
  
  
22. What are the three principal tools of monetary policy? Explain how they can be used.
  
  
  
  
  
  
  
  
  
  
26. Explain how a change in the reserve ratio affects the money supply.
  
  
  
  
  
  
  
  
  
  
27. What is the discount rate and how does changing it affect the money supply?

28. Which tool of monetary policy is most important? Why?
33. What is the relationship between the Federal funds rate and the prime interest rate? Why doesn't the Federal Reserve target the prime interest rate?
34. How is the Federal funds rate established? What role does the Federal Reserve play?
35. What is the Federal funds rate and how does the Fed target it?
36. Describe how changes in the Fed's major policy tool leads to expansionary and restrictive monetary policies.
43. Differentiate between expansionary and restrictive monetary policies.