

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

- 1) Money supply models tend to focus on the monetary base rather than on reserves since
  - A) Fed actions in general have little effect on reserves but have a predictable effect on the monetary base.
  - B) Fed actions have no effect on reserves but have a predictable effect on the monetary base.
  - C) Fed actions have a more predictable effect on the monetary base.
  - D) none of the above.
  
- 2) The formula linking the money supply to the monetary base is
  - A)  $M = m/MB$ .
  - B)  $m = M \times MB$ .
  - C)  $MB = M \times m$ .
  - D)  $M = m + MB$ .
  - E)  $M = m \times MB$ .
  
- 3) The equation linking the monetary base to the levels of checkable deposits and currency is
  - A)  $MB = R + C$ .
  - B)  $MB = (r \times D) + ER$ .
  - C)  $MB = (r \times D) + ER + C$ .
  - D) both A and B are correct.
  - E) both A and C are correct.
  
- 4) The equation linking the monetary base to the levels of checkable deposits and currency is
  - A)  $MB = (r/D) + ER + C$ .
  - B)  $MB = (r + D) + ER + C$ .
  - C)  $MB = (r - D) + ER - C$ .
  - D)  $MB = (r \times D) + ER + C$ .
  - E)  $MB = (r \times D) - ER - C$ .
  
- 5) An increase in the monetary base that goes into \_\_\_\_\_ is not multiplied, while an increase that goes into \_\_\_\_\_ is multiplied.
  - A) currency; deposits
  - B) excess reserves; currency
  - C) deposits; excess reserves
  - D) currency; excess reserves
  - E) deposits; currency
  
- 6) The formula for the money multiplier that includes excess reserves and currency is
  - A)  $m = 1/(r + e + c)$ .
  - B)  $M = (1 + c)/(r + e + c)$ .
  - C)  $M = 1/(r + e + c)$ .
  - D)  $m = (1/(r + e + c)) \times MB$ .
  - E)  $D = 1/(r + e + c)$ .
  
- 7) If the required reserve ratio is 10 percent, currency in circulation is \$400 billion, checkable deposits are \$800 billion, and excess reserves total \$0.8 billion, then the money supply is
  - A) \$1200.8.
  - B) \$8000.
  - C) \$1200.
  - D) \$8400.

- 8) If the required reserve ratio is 10 percent, currency in circulation is \$400 billion, checkable deposits are \$800 billion, and excess reserves total \$0.8 billion, then the currency ratio is  
 A) 0.25.                                      B) 0.05.                                      C) 0.40.                                      D) 0.50.
- 9) If the required reserve ratio is 10 percent, currency in circulation is \$400 billion, checkable deposits are \$800 billion, and excess reserves total \$0.8 billion, then the excess reserves–checkable deposit ratio is  
 A) 0.05.                                      B) 0.01.                                      C) 0.10.                                      D) 0.001.
- 10) If the required reserve ratio is 15 percent, currency in circulation is \$400 billion, checkable deposits are \$800 billion, and excess reserves total \$0.8 billion, then the money multiplier is approximately  
 A) 0.651.                                      B) 2.5.                                      C) 2.3.                                      D) 1.67.
- 11) If the required reserve ratio is 10 percent, currency in circulation is \$400 billion, checkable deposits are \$1000 billion, and excess reserves total \$1 billion, then the money multiplier is approximately  
 A) 2.5.                                      B) 2.0.                                      C) 0.7.                                      D) 2.8.
- 12) For a given level of the monetary base, an increase in the required reserve ratio on checkable deposits will mean  
 A) an increase in the money supply.                                      B) an increase in discount borrowing.  
 C) an increase in checkable deposits.                                      D) a decrease in the money supply.
- 13) For a given level of the monetary base, an increase in the currency–checkable deposit ratio will mean  
 A) an increase in money supply but no change in reserves.  
 B) an increase in currency in circulation and an increase in the money supply.  
 C) an increase in currency in circulation but no change in the money supply.  
 D) a decrease in the money supply.
- 14) Given the monetary base, a decrease in the currency ratio means  
 A) a decrease in the money supply.  
 B) an increase in the borrowed base offset by an equal decrease in the nonborrowed base.  
 C) an increase in the nonborrowed base, but an equal decrease in the borrowed base.  
 D) an increase in the money supply.  
 E) none or the above.
- 15) When banks reduce their holdings of excess reserves  
 A) the money supply falls.  
 B) the monetary base increases.  
 C) the money supply increases.  
 D) the monetary base falls.  
 E) the money multiplier falls.
- 16) The money multiplier is  
 A) positively related to the required reserve ratio.  
 B) negatively related to the currency–checkable deposit ratio.  
 C) positively related to holdings of excess reserves.  
 D) both A and B of the above.

- 17) For a given level of the monetary base, an increase in the currency ratio causes the money multiplier to \_\_\_\_\_ and the money supply to \_\_\_\_\_.
- A) increase; increase      B) decrease; decrease      C) decrease; increase      D) increase; decrease
- 18) Assuming initially that  $r = 10\%$ ,  $c = 40\%$ , and  $e = 0$ , an increase in  $c$  to  $50\%$  causes
- A) the money multiplier to decrease from 2.8 to 2.33.  
B) the money multiplier to increase from 2.33 to 2.8.  
C) the money multiplier to decrease from 2.8 to 2.5.  
D) the money multiplier to increase from 2.5 to 2.8.  
E) no change in the money multiplier.

## Answer Key

Testname: CHAPTER 16 PQ.TST

- 1) C
- 2) E
- 3) E
- 4) D
- 5) A
- 6) A
- 7) C
- 8) D
- 9) D
- 10) C
- 11) D
- 12) D
- 13) D
- 14) D
- 15) C
- 16) B
- 17) B
- 18) C