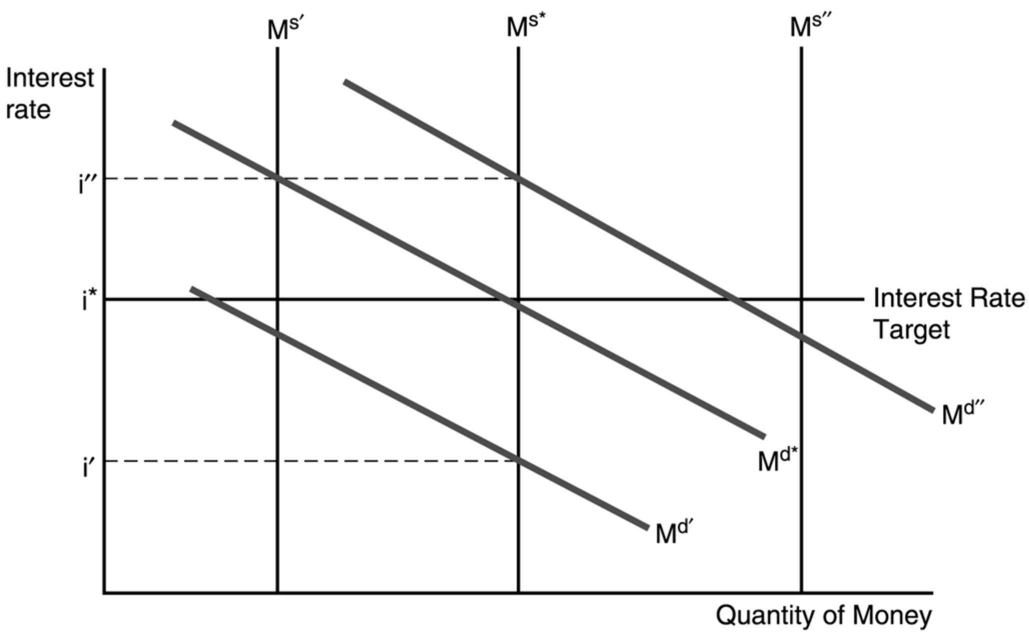
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The objectives of the Federal Reserve in its conduct of monetary policy include
A) high employment. B) price stability. C) economic growth. D) all of the above.

2) Which set of goals can, at times, conflict in the short run?
A) Exchange rate stability and financial market stability
B) High employment and economic growth
C) Interest rate stability and financial market stability
D) High employment and price level stability
E) All of the above sets of goals can be in conflict

3) The central bank's game plan can be described as follows:
A) The central bank uses its policy tools to adjust operating targets that directly impact its intermediate targets in a way that allows the central bank to achieve its goals.
B) The central bank uses its operating targets to adjust its intermediate targets that directly impact its policy tools in a way that allows the central bank to achieve its goals.
C) The central bank uses its policy tools to adjust intermediate targets that directly impact its operating targets in a way that allows the central bank to achieve its goals.
D) None of the above.



4) Referring to the figure above, if the central bank wishes to keep the interest rate at the target value i^*, it must
A) allow the interest rate to decrease when money demand decreases.
B) hold the money supply constant at M^{s*} when money demand falls to $M^{d'}$.
C) increase the money supply to $M^{s''}$ when money demand increases to $M^{d''}$.
D) allow the interest rate to increase when money demand increases.
E) none of the above.

5) Referring to the figure above, when money demand fluctuates between $M^{d'}$ and $M^{d''}$, a policy of interest rate targeting results in

A) interest rate fluctuations between i^* and i'.

B) money supply fluctuations between M^* and $M^{s''}$.

C) money supply fluctuations between $M^{s'}$ and $M^{s''}$.

D) interest rate fluctuations between i' and i''.

E) no fluctuations in either the interest rate or money supply.

6) Interest rates are difficult to measure because

A) real interest rates depend on the hard–to–determine expected inflation rate.

B) data on them are not timely available.

C) they cannot be controlled by the Fed.

D) they fluctuate too often to be accurate.

7) Which of the following criteria must be satisfied when selecting an intermediate target?

A) The variable must be controllable with the use of the central bank's policy tools.

B) The variable must be measurable and frequently available.

C) The variable must have a predictable impact on the policy goal.

D) Each of the above.

8) According to the Taylor rule, the Fed should raise the federal funds interest rate when

A) inflation rises above the Fed's inflation target.

B) real GDP rises above the Fed's output target.

C) real GDP drops below the Fed's output target.

D) both A and B occur.

E) both A and C occur.

9) Using Taylor's rule, when the equilibrium real federal funds rate is 2 percent, there is no output gap, the actual inflation rate is zero, and the target inflation rate is 2 percent, the nominal federal funds rate should be

A) 0 percent. B) 2 percent. C) 4 percent. D) 1 percent. E) 3 percent.

10) The rate of inflation tends to remain constant when

A) the unemployment rate increases faster than the NAIRU increases.

B) the unemployment rate falls faster than the NAIRU falls.

C) the unemployment rate equals the NAIRU.

D) the unemployment rate is above the NAIRU.

E) the unemployment rate is below the NAIRU.

Answer Key
Testname: CHAPTER 18 PQ.TST

1) D
2) D
3) A
4) C
5) C
6) A
7) D
8) D
9) D
10) C