1- Increases in federal deficit are:
   a) positively related with trade surpluses
   b) positively related with trade deficit
   c) negatively related with trade deficits
   d) not related to trade deficits

2- The relationship between the trade deficit and federal government deficit can be explained by
   a) lower interest rates in the U.S. that encourage foreigners to buy more U.S. goods and services
   b) foreign investors buying fewer U.S. government bonds
   c) lower prices of U.S. goods in real terms
   d) Higher U.S. interest rates that encourage foreigners to buy more U.S. bonds and thus less goods and services.

3- An increase in the federal budget deficit has historically caused foreign dollar holders to spend
   a) more on U.S. government securities and U.S. goods and services
   b) less on U.S. government securities and U.S. goods and services
   c) more on U.S. government securities and less on U.S. goods and services
   d) more on U.S. goods and services and less on U.S. government securities

4- The U.S. government typically finances its federal budget deficits by
   a) buying Treasury bonds from the public
   b) selling U.S. Treasury bonds
   c) lowering marginal tax rates
   d) decreasing the interest rate charged by the Federal Reserve Bank

5- In the United States, money serves in all of the following functions EXCEPT as
   a) a medium of exchange
   b) a unit of accounting
   c) an “IOU” to the government for a certain amount of gold or silver
   d) a store of value

6- When we examine the U.S. money supply, the largest component of M1 is
   a) coins minted by the treasury
   b) checkable deposits
   c) certificates of deposit
   d) Federal Reserve notes

7- The Board of Governors of the Federal Reserve System is
   a) appointed by the Congress
   b) elected by the public
   c) appointed by the president with approval of the U.S. Senate
   d) elected by members of the American Banking Association

8- Which of the following is NOT a function of the Fed?
   a) regulating the money supply in the economy
   b) acting as government’s fiscal agent
   c) providing a system of check collection and clearing for members
   d) holding reserves for depository institutions
   e) all of the above
9. A time deposit with a fixed maturity date offered by banks is called a
   a) checking account
   b) Eurodollar deposit
   c) Certificate of deposit
   d) Corporate bond

10- The Federal Open Market Committee (FOMC)
   a) determines the tax policy of the government
   b) influences the future growth of the money supply
   c) oversees all transactions on the stock market
   d) lends to the least credit-worthy customers

11- The opportunity cost of holding money is measured by
   a) a dollar
   b) the price of government bonds
   c) the interest yield that could have been earned by holding some other asset
   d) the liquidity of interest-bearing assets

12- A demand deposit account is a liability to a commercial bank
   a) a liability to a commercial bank
   b) an asset to a commercial bank
   c) a liability to the household or firm that has the account
   d) an asset for the Federal Reserve System

13- If a bank has $100,000 in demand deposits and $30,000 on reserve with a 20% reserve requirement,
   the bank
   a) has required reserves of $30,000
   b) has legal reserves of $10,000
   c) has excess reserves of $10,000
   d) has required reserves of $10,000

14- Required reserves consisted of
   a) deposits at district Federal Reserve banks plus vault currency cash
   b) deposits at Federal Reserve banks only
   c) vault cash only
   d) savings and checking accounts only

15- when banks have excess reserves, their reserve holdings exceed
   a) their desired holdings
   b) legal reserves
   c) required reserves
   d) checkable deposits

16- if a bank holds $20,000 in required reserves in order to meets a required reserve ratio of 40%, demand
   deposits must equal
   a) $20,000
   b) $40,000
   c) $50,000
   d) $100,000

17- The Federal Open Market Committee has responsibility for
   a) appointing members to the Board of Governors of the Federal Reserve System
   b) printing money
   c) executing orders to buy or sell government securities for the FED
   d) advising the Treasury Department on monetary policy
18- If the money multiplier is 2.4 and the Fed buys $8 million in securities on the open market, demand deposits could potentially
   a) increase by $19.2 million
   b) increase by $8 million
   c) decrease by $19.2 million
   d) decrease by $165 million

19- The money multiplier is equal to
   a) the reserve ratio
   b) the inverse of the reserve ratio
   c) the reserve requirement
   d) the number of dollars on reserve

20- If the Federal Reserve sells $100 of securities through a commercial bank when the reserve requirement is 10%, the money supply may ultimately
   a) increase by $100
   b) increase by $1,000
   c) decrease by $100
   d) decrease by $1,000

21- When the Fed buys a U.S. bond in the open market
   a) it has no effect on the total reserves or the money supply because the check it writes increases reserves at one bank but they fall at another
   b) total reserves increase by the amount of the purchase but the money supply stays the same
   c) it expands total reserves and the money supply
   d) it contracts total reserves and the money supply

22- The transactions demand for money varies
   a) directly with real national income
   b) inversely with nominal national income
   c) directly with nominal national income
   d) inversely with real national income

23- Suppose the reserve requirement is 20%. If a bank has demand deposits of $4 million and actual reserves of $1 million, it can safely lend out:
   a) $1 million
   b) $1.2 million
   c) $200,000
   d) $800,000

24- The value of the money multiplier is
   a) 1/MPS
   b) 1/Excess Reserves
   c) 1/MPC
   d) 1/Required Reserve Ratio

25- If the required reserve ratio was lowered:
   a) banks would have to reduce their lending
   b) the size of the monetary multiplier would increase
   c) the actual reserves of banks would increase
   d) the Federal funds interest rate would rise
26- The discount rate is the interest:
   a) rate at which the central banks lend to the U.S. Treasury
   b) rate at which the Federal Reserve Banks lend to commercial banks
   c) yield on long-term government bonds
   d) rate at which commercial banks lend to the public

27- If the amount of money demanded exceeds the amount supplied, it can be expected that the:
   a) demand-for-money curve will shift to the left
   b) money supply curve will shift to the right
   c) interest rate will rise
   d) interest rate will fall

28- When interest rates rise, the transactions demand for money usually:
   a) decreases
   b) increases
   c) decreases initially and then increases to the original position
   d) does not change

29- If demand deposits are $500 million; time deposits $300 million; and currency is $200 million, then:
   a) M2 is $700 million
   b) M1 is $700 million
   c) M1 is $1,000 million
   d) M2 is $800 million
   e) The sum of both monies is $1,000

30- When the Fed sells government securities in the “open market”:
   a) it shirks total reserves and the money supply
   b) it decreases interest rates
   c) it expands total reserves and money supply
   d) it increases bond prices
   e) it has no effect on the total reserves

31- The equation of exchange is:
   a) quantity supplied equals quantity demanded
   b) quantity bought equals quantity sold
   c) \( M \times V = P \times Q \), where \( M \) = money supply; \( V \) = velocity; \( P \) = price level; \( Q \) = output
   d) \( C+I+G = Y \), where \( C \) = consumption; \( I \) = investment; \( G \) = government expenditure; and \( Y \) = output
   e) Input equals output

32- In an economy in which velocity is constant and the level of real of output grows at an average rate of 4% per year, a 4% average rate growth in the money supply would result in:
   a) a constant price level
   b) a slowly increasing price level
   c) a rapidly increasing price level
   d) constant real GDP
   e) constant nominal GDP