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| **Multiple Choice** |

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| 1. ​Coins in the United States are manufactured and distributed by the:   |  |  |  | | --- | --- | --- | |  | a. | ​Federal Reserve. | |  | b. | ​U.S. Mint. | |  | c. | ​International Trade Administration | |  | d. | ​Federal Bureau of Investigation. | |  | e. | ​Comptroller of the Currency. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 2. The M1 money supply consists of:​   |  |  |  | | --- | --- | --- | |  | a. | ​only coins and currency held by the nonbank public. | |  | b. | ​certificates of deposit only. | |  | c. | ​coins and currency held by the nonbank public, checkable deposits, and traveler's checks. | |  | d. | ​money market mutual fund accounts, savings accounts, and other miscellaneous near-monies. | |  | e. | ​only paper currency. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 3. Which of the following is included in the narrow definition of the money supply?​   |  |  |  | | --- | --- | --- | |  | a. | ​Cash in bank vaults | |  | b. | ​Savings deposits | |  | c. | ​Money market mutual fund accounts | |  | d. | ​Negotiable certificates of deposit | |  | e. | ​Checkable deposits |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 4. ​The M1 money supply consists primarily of:   |  |  |  | | --- | --- | --- | |  | a. | ​savings deposits. | |  | b. | ​certificates of deposit. | |  | c. | ​miscellaneous near-monies. | |  | d. | ​checkable deposits. | |  | e. | ​money market mutual fund accounts. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 5. ​Which of the following is not true of Federal Reserve notes?   |  |  |  | | --- | --- | --- | |  | a. | ​They are fiat money. | |  | b. | ​They are a liability of the Fed. | |  | c. | ​They are redeemable for other Federal Reserve notes. | |  | d. | ​They are redeemable for gold. | |  | e. | ​They are counted as currency in the money supply. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 6. ​If you returned a $5 Federal Reserve note to the Fed, you could receive:   |  |  |  | | --- | --- | --- | |  | a. | ​$5 in silver. | |  | b. | ​$5 in gold. | |  | c. | ​5 one-dollar bills. | |  | d. | ​10 one-dollar bills. | |  | e. | ​a small gold bar. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 7. Stores need not accept your check but must accept currency because:​   |  |  |  | | --- | --- | --- | |  | a. | ​currency is backed by gold. | |  | b. | ​checks are not money but currency is. | |  | c. | ​currency is legal tender, but checks are not. | |  | d. | ​currency is easier to handle. | |  | e. | ​currency is a medium of exchange, but checks are not. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 8. ​A 2005 quarter is called token money because:   |  |  |  | | --- | --- | --- | |  | a. | ​it is legal tender. | |  | b. | ​its metal value exceeds its face value. | |  | c. | ​there is less than a quarter's worth of metal in it. | |  | d. | ​it can be used in the subway. | |  | e. | ​it is generally not accepted in exchange. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 9. M2 consists of:​   |  |  |  | | --- | --- | --- | |  | a. | ​M1 plus savings accounts, small time deposits, money market mutual funds, and miscellaneous near-monies. | |  | b. | ​coins, currency, and checkable deposits only. | |  | c. | ​only near-monies. | |  | d. | ​M1 plus time deposits only. | |  | e. | ​M1 plus money market mutual funds only. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 10. The distinction between M1 and M2 has blurred over time because:​   |  |  |  | | --- | --- | --- | |  | a. | ​M1 is now larger than M2. | |  | b. | ​depositors can transfer funds between accounts easily. | |  | c. | ​the Federal Reserve has defined them less precisely. | |  | d. | ​M1 is becoming less liquid. | |  | e. | ​banks are now offering time deposits. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 11. Which of the following is true of M1?​   |  |  |  | | --- | --- | --- | |  | a. | ​It is equal to M2. | |  | b. | ​It consists of all near-monies. | |  | c. | ​It consists of certificates of deposit. | |  | d. | ​It is the broader definition of money. | |  | e. | ​It is only a fraction of M2. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 12. All of the following are part of M2 except one. Which is the exception?​   |  |  |  | | --- | --- | --- | |  | a. | ​Money market deposit accounts | |  | b. | ​Coins | |  | c. | ​Traveler's checks | |  | d. | ​Large-denomination time deposits | |  | e. | ​Savings deposits |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 13. Which of the following is true of credit cards?​   |  |  |  | | --- | --- | --- | |  | a. | ​They have eliminated the use of money. | |  | b. | ​They are currently the most popular means of payment in the United States. | |  | c. | ​They are included in the narrow definition of money, M1. | |  | d. | ​They are near-monies. | |  | e. | ​They are used to postpone the payment of money. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 14. Which of the following is not money?​   |  |  |  | | --- | --- | --- | |  | a. | ​Checks | |  | b. | ​Coins | |  | c. | ​Federal reserve notes | |  | d. | ​Debit cards | |  | e. | ​Credit cards |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 15. Which of the following is an advantage of using a credit card?   |  |  |  | | --- | --- | --- | |  | a. | Credit cards help account holders tap directly into their checking account. | |  | b. | Credit cards help account holders get a loan from the card issuer. | |  | c. | Credit cards require a PIN number and are therefore safe. | |  | d. | Credit card holders can earn a fixed interest on their accounts. | |  | e. | Credit cards help eliminate the use of money. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 16. Which of the following is a disadvantage of using debit cards?​   |  |  |  | | --- | --- | --- | |  | a. | ​Debit cards are unsafe for use. | |  | b. | ​Debit cards do not provide a grace period between a purchase and required payment. | |  | c. | ​Debit cards delay payments. | |  | d. | ​Debit cards are not not easy to use. | |  | e. | ​Debit cards make purchases more expensive than they actually are. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 17. Many people prefer debit cards to checks because:​   |  |  |  | | --- | --- | --- | |  | a. | ​checkbooks are not required and direct payments are made. | |  | b. | ​checks are unsafe for use. | |  | c. | ​debit cards delay money payments. | |  | d. | ​using checks is time consuming. | |  | e. | ​debit cards help account holders get a loan from the card issuer. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 18. Banks act as financial intermediaries by:   |  |  |  | | --- | --- | --- | |  | a. | bringing together car buyers and auto dealers.​ | |  | b. | ​bringing together real estate brokers and home buyers. | |  | c. | ​printing money for all to use. | |  | d. | ​serving the credit needs of borrowers and the security needs of savers. | |  | e. | ​selling shares of stock to investors. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 19. Banks minimize the risk of loss to depositors by:​   |  |  |  | | --- | --- | --- | |  | a. | ​lending to government officials. | |  | b. | ​making many different loans to different borrowers. | |  | c. | ​refusing to lend money to the U.S. government. | |  | d. | ​lending to the richest 1 percent of the population. | |  | e. | ​making very long-term loans. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 20. Banks have more expertise than individual households in making loans because banks:​   |  |  |  | | --- | --- | --- | |  | a. | ​lend smaller amounts of money. | |  | b. | ​are regulated by the government. | |  | c. | ​also pay interest to savers. | |  | d. | ​are subject to severe penalties if they make bad loans. | |  | e. | ​make many more loans than individual households do. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 21. Asymmetric information in financial markets exists when:   |  |  |  | | --- | --- | --- | |  | a. | borrowers reveal their financial details to banks before borrowing funds. | |  | b. | borrowers know more about their ability to repay loans than lenders do. | |  | c. | lenders know more about borrowers than borrowers know about themselves. | |  | d. | borrowers pay off a loan before it is due. | |  | e. | borrowers and lenders have equal information about borrower creditworthiness. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 22. Banks help to overcome the problem of asymmetric information by:   |  |  |  | | --- | --- | --- | |  | a. | lending to a single rich borrower and not diversifying their portfolio. | |  | b. | acquiring expertise in evaluating the credit histories of borrowers. | |  | c. | threatening borrowers. | |  | d. | offering only one type of loan. | |  | e. | providing information to lenders. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 23. The United Bank of Glassen only lent money to a limited number of big business houses. After a financial crisis, the bank went out of business. Which of the following reasons could have contributed to the collapse of this bank?​   |  |  |  | | --- | --- | --- | |  | a. | ​Their decision not to lend funds to the Federal Reserve | |  | b. | ​Their decision not to diversify their asset portfolio | |  | c. | ​Their decision to extend loans to a diversified pool of borrowers | |  | d. | ​Their decision to extend mainly short-term loans | |  | e. | ​Their decision to unnecessarily scrutinize each borrower's details |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 24. Banks earn a profit on the difference between:   |  |  |  | | --- | --- | --- | |  | a. | the interest charged from depositors and the interest offered to borrowers. | |  | b. | the interest charged on loans and the interest paid on deposits. | |  | c. | the deposit and loan balances. | |  | d. | outstanding loans and interest. | |  | e. | dividends and interest. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 25. Which of the following is true of banks?​   |  |  |  | | --- | --- | --- | |  | a. | ​Banks reduce the opportunity cost of holding idle cash. | |  | b. | ​Banks act as intermediaries between the government and private investors. | |  | c. | ​Banks can reduce risk by lending to rich borrowers. | |  | d. | ​Banks reduce the transaction costs of borrowing and lending money. | |  | e. | ​Banks can reduce risks by extending more loans. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 26. A bank's net worth is:​   |  |  |  | | --- | --- | --- | |  | a. | ​equal to assets plus liabilities. | |  | b. | sometimes called the owners' equity.​ | |  | c. | ​equal to assets minus reserves. | |  | d. | ​the same thing as net profits. | |  | e. | ​the amount of interest charged by the bank for short-term loans. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 27. On a bank's balance sheet, the value of its assets must equal the value of its:   |  |  |  | | --- | --- | --- | |  | a. | net worth only. | |  | b. | liabilities only. | |  | c. | revenues plus costs. | |  | d. | the value of its liabilities plus net worth. | |  | e. | revenues minus costs. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 28. ​If a bank has $1 million in assets and $50,000 in net worth, its liabilities must equal:   |  |  |  | | --- | --- | --- | |  | a. | ​$50,000. | |  | b. | ​$1,050,000. | |  | c. | ​$50 million. | |  | d. | ​$1,000,000. | |  | e. | ​$950,000. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 29. Which of the following is an asset to a bank?​   |  |  |  | | --- | --- | --- | |  | a. | ​Checkable deposits | |  | b. | ​Transaction deposits | |  | c. | ​Credit cards | |  | d. | ​Loans | |  | e. | ​Borrowings from the Fed |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 30. When a customer deposits $1,000 in a bank, the deposit is:   |  |  |  | | --- | --- | --- | |  | a. | an asset of the Federal Reserve. | |  | b. | included in M1 if it is currently in the bank's vault. | |  | c. | a liability to the customer. | |  | d. | an asset to the bank if it is currently in the bank's vault. | |  | e. | a liability for the bank as the bank owes it to the customer. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 31. When a customer deposits $100 into a checking account, it:​   |  |  |  | | --- | --- | --- | |  | a. | ​increases the bank's liabilities only. | |  | b. | ​decreases the bank's liabilities only. | |  | c. | ​increases the bank's assets only. | |  | d. | ​decreases both the bank's liabilities and its assets. | |  | e. | ​increases both the bank's liabilities and its assets. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 32. Which of the following is a liability for a bank?   |  |  |  | | --- | --- | --- | |  | a. | U.S. government securities owned by the bank | |  | b. | Deposits with the Fed | |  | c. | Checkable deposits | |  | d. | Consumer and business loans | |  | e. | Building and furniture owned by the bank |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 33. If a bank has $6,000 in checkable deposits and the required reserve ratio is 0.2, then the bank can lend:   |  |  |  | | --- | --- | --- | |  | a. | exactly $4,000. | |  | b. | about $16,000. | |  | c. | no more than $4,800. | |  | d. | about $13,000. | |  | e. | exactly $1,000. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 34. Suppose a bank has $6,000 in checkable deposits and the required reserve ratio is 0.2. If the bank wishes to hold no excess reserves, its actual reserves will be:​   |  |  |  | | --- | --- | --- | |  | a. | ​$4,000. | |  | b. | ​$1,200. | |  | c. | ​$3,000. | |  | d. | ​less than $1,000. | |  | e. | ​$4,800. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 35. If the required reserve ratio is 20 percent and a bank has $100,000 in checkable deposits, then its:​   |  |  |  | | --- | --- | --- | |  | a. | ​required reserves are $500,000. | |  | b. | ​required reserves are $20,000. | |  | c. | ​assets are $500,000. | |  | d. | ​liabilities are $500,000. | |  | e. | ​net worth is $500,000. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 36. If the required reserve ratio is 10 percent and a bank receives a new deposit for $100,000, then the:   |  |  |  | | --- | --- | --- | |  | a. | bank must keep $5,000 in excess reserves. | |  | b. | bank's required reserves increase by $45,000. | |  | c. | bank's liabilities increase by $100,000. | |  | d. | bank must keep $10,000 in excess reserves. | |  | e. | bank can increase its loans by up to $400,000. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 37. Suppose a bank has $8,000 in checkable deposits and the required reserve ratio is 0.2. If actual reserves equal $3,000, then excess reserves equal:​   |  |  |  | | --- | --- | --- | |  | a. | ​$1,600. | |  | b. | ​$1,400. | |  | c. | ​$2,400. | |  | d. | ​$5,000. | |  | e. | ​zero. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 38. A bank can legally hold reserves as:​   |  |  |  | | --- | --- | --- | |  | a. | ​gold and coins. | |  | b. | ​gold and checks. | |  | c. | ​cash in its vault and non-interest-bearing reserve deposits at the Fed. | |  | d. | ​gold and non-interest-bearing reserve deposits at the Fed. | |  | e. | ​U.S. government securities and coins. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 39. ​Suppose the required reserve ratio is 0.1 and Linda deposits $4,000 in cash at the College State Bank. If the bank held no excess reserves before Linda's deposit and now increases its reserves by $500, which of the following is true?   |  |  |  | | --- | --- | --- | |  | a. | ​The bank must have lent out an additional $4,000. | |  | b. | ​$500 is the value of the bank's required reserves. | |  | c. | ​The bank now has excess reserves of $100. | |  | d. | ​Both the bank's assets and its liabilities rise by $500. | |  | e. | ​The bank now has $500 in excess reserves. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 40. Suppose the First National Bank acquires $500,000 in new deposits and the required reserve ratio is 12 percent. Which of the following is true?​   |  |  |  | | --- | --- | --- | |  | a. | ​Required reserves on the new deposits are $12,000. | |  | b. | ​Excess reserves on the new deposits are $500,000. | |  | c. | ​Required reserves on the new deposits are $60,000. | |  | d. | ​Excess reserves on the new deposits are $12,000. | |  | e. | ​Total reserves on the new deposits are $440,000. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 41. ​The liquidity of an asset indicates:   |  |  |  | | --- | --- | --- | |  | a. | ​its buying power. | |  | b. | ​the ease with which it can be converted into cash without a significant loss of value. | |  | c. | ​the ease with which it can be converted into another asset. | |  | d. | ​how likely people are to trade it internationally. | |  | e. | ​its intrinsic value. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 42. If a bank has $50,000 in excess reserves at the end of a business day and the required reserve ratio is 20 percent, the bank can increase its profits by:​   |  |  |  | | --- | --- | --- | |  | a. | ​keeping the excess reserves. | |  | b. | ​loaning out $40,000. | |  | c. | ​loaning out $50,000 to another bank. | |  | d. | ​borrowing $50,000 to remove the excess reserves. | |  | e. | ​keeping $10,000 and depositing $40,000 with the Fed. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 43. A bank finds itself short of required reserves and therefore borrows from another commercial bank. The interest rate on this loan is:​   |  |  |  | | --- | --- | --- | |  | a. | ​zero. | |  | b. | ​the prime rate. | |  | c. | ​the discount rate. | |  | d. | ​the federal funds rate. | |  | e. | ​the required reserve ratio. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 44. To maximize its profit, a bank will:​   |  |  |  | | --- | --- | --- | |  | a. | ​minimize the number transactions it engages in. | |  | b. | ​maximize required reserves. | |  | c. | ​minimize excess reserves. | |  | d. | ​maximize excess reserves. | |  | e. | ​minimize required reserves. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 45. In the federal funds market, \_\_\_\_\_.​   |  |  |  | | --- | --- | --- | |  | a. | ​banks make loans to the Fed | |  | b. | ​banks make short-term loans to other banks | |  | c. | ​banks make long-term loans to other banks | |  | d. | ​the Fed makes short-term loans to private borrowers | |  | e. | ​the Fed makes long-term loans to commercial banks |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 46. In order to meet a deficiency of required reserves, a bank could:​   |  |  |  | | --- | --- | --- | |  | a. | ​buy securities. | |  | b. | ​deposit vault cash with the Fed. | |  | c. | ​turn some of its deposits at the Fed into cash. | |  | d. | ​close some checking accounts. | |  | e. | ​borrow from another bank in the federal funds market. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 47. By holding highly liquid assets to guard against sudden large withdrawals, banks:​   |  |  |  | | --- | --- | --- | |  | a. | ​sacrifice safety. | |  | b. | ​sacrifice profitability. | |  | c. | ​increase profitability. | |  | d. | ​diversify their portfolio. | |  | e. | ​earn more interest than they could on business loans. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 48. ​Banks want to minimize their holdings of excess reserves because:   |  |  |  | | --- | --- | --- | |  | a. | ​they will be penalized by the Federal Reserve System if excess reserves are too high. | |  | b. | ​required reserves are also minimized when banks minimize their holdings of excess reserves. | |  | c. | ​the money multiplier becomes too large if the excess reserves are high. | |  | d. | ​they want to borrow more on the federal funds market. | |  | e. | ​excess reserves earn no interest. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 49. The least liquid of the assets listed below is:​   |  |  |  | | --- | --- | --- | |  | a. | ​real estate. | |  | b. | ​currency. | |  | c. | ​traveler's checks. | |  | d. | ​oil. | |  | e. | ​checkable deposits. |  |  |  | | --- | --- | | *ANSWER:* | a | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| 50. Banks differ from other types of businesses because banks:​   |  |  |  | | --- | --- | --- | |  | a. | ​earn profits. | |  | b. | ​combine economic resources to produce services. | |  | c. | ​can go out of business. | |  | d. | ​can create money. | |  | e. | ​are regulated by the government. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 51. When the Fed buys U.S. government securities from a member bank, \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | there is a decrease in the bank's assets | |  | b. | there is an increase in the discount rate | |  | c. | there is a decrease in the bank's liabilities | |  | d. | there is an increase in the federal funds rate | |  | e. | the bank's total assets and liabilitiesincrease |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 52. The immediate effect of a member bank's sale of U.S. government securities to the Fed is a(n):​   |  |  |  | | --- | --- | --- | |  | a. | ​increase in that bank's required reserves. | |  | b. | ​decrease in that bank's required reserves. | |  | c. | ​increase in that bank's excess reserves. | |  | d. | ​decrease in that bank's excess reserves. | |  | e. | ​decrease in the Fed's assets. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 53. Suppose you bank at Bank A and you write a check to your friend, who banks at Bank B. After the check clears, \_\_\_\_\_.​   |  |  |  | | --- | --- | --- | |  | a. | ​both Bank A's and Bank B's assets increase | |  | b. | ​both Bank A's and Bank B's assets decrease | |  | c. | ​Bank A's assets increase and Bank B's assets decrease | |  | d. | ​Bank A's assets decrease and Bank B's assets increase | |  | e. | ​there is an increase in the Federal Reserve's assets |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 54. When a check is cleared against Bank A after being deposited at Bank B, \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | ​both Bank A's and Bank B's liabilities increase | |  | b. | ​both Bank A's and Bank B's liabilities decrease | |  | c. | ​Bank A's liabilities increase and Bank B's liabilities decrease | |  | d. | ​Bank A's liabilities decrease and Bank B's liabilities increase | |  | e. | ​there is an increase in the liabilities of the Federal Reserve |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 55. ​Suppose you borrow $1,000 to purchase a car. Which of the following correctly represents the changes in your personal balance sheet after the bank lends the money, but before you spend it?   |  |  |  | | --- | --- | --- | |  | a. | ​Assets: loan, +$1,000; Liabilities and net worth: checking deposit, +$1,000 | |  | b. | ​Assets: loan, -$1,000, checking deposit, +$1,000; Liabilities and net worth: no change | |  | c. | ​Assets: loan, +$1,000, checking deposit, -$1,000; Liabilities and net worth: no change | |  | d. | ​Assets: checking deposit, +$1,000; Liabilities and net worth: loan, +$1,000 | |  | e. | ​Assets: checking deposit, +$1,000; Liabilities and net worth: loan, -$1,000 |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 56. Suppose a bank lends you $1,000 to purchase a car. Which of the following correctly represents the changes in the bank's balance sheet before you spend the money?​   |  |  |  | | --- | --- | --- | |  | a. | ​Assets: loans, +$1,000; Liabilities and net worth: checking deposits, +$1,000 | |  | b. | ​Assets: loans, -$1,000, checking deposits, +$1,000; Liabilities and net worth: no change | |  | c. | ​Assets: loans, +$1,000, checking deposits, -$1,000; Liabilities and net worth: no change | |  | d. | ​Assets: checking deposits, +$1,000; Liabilities and net worth: loans, +$1,000 | |  | e. | ​Assets: checking deposits, +$1,000; Liabilities and net worth: loans, -$1,000 |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 57. If a bank sells a $1,000 security to the Fed and the required reserve ratio is 20 percent, then \_\_\_\_\_\_\_\_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | the bank has $1,000 in additional reserves, of which it can lend $800 | |  | b. | the bank has $1,000 in additional reserves, all of which it can lend out | |  | c. | the bank has lost an asset and must reduce its loans | |  | d. | the bank has lost a liability | |  | e. | there is no change in excess reserves, since net assets do not change |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 58. Suppose the Fed purchases $5,000 in U.S. government securities from the Last National Bank and the Last National Bank's account at the Federal Reserve district bank increases by $5,000. Which of the following is a result of this transaction?   |  |  |  | | --- | --- | --- | |  | a. | The Last National Bank's balance sheet will show a change in the composition of its assets. | |  | b. | Both the Last National Bank's assets and its liabilities will rise by $5,000. | |  | c. | Both the Fed's assets and its liabilities will fall by $5,000. | |  | d. | Only the Fed's liabilities will change, while its assets will remain unchanged. | |  | e. | This transaction will decrease the money supply. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 59. The table below shows the balance sheet of Eubank. If Eubank is holding no excess reserves, its required reserve must be:  ​  **Table 14.1**  ​  EUBANK   |  |  |  |  | | --- | --- | --- | --- | | Assets | ​ | Liabilities and Net Worth | ​ | | ​ | ​ | ​ | ​ | | Deposits at the Fed | $40,000 | Checkable deposits | $500,000 | | Cash | $10,000 | Net Worth | $20,000 | | Loans | $300,000 | ​ | ​ | | Securities | $150,000 | ​ | ​ | | Fed Stock | $20,000 | ​ | ​ |  |  |  |  | | --- | --- | --- | |  | a. | 5 percent. | |  | b. | 4 percent. | |  | c. | 8 percent. | |  | d. | 20 percent. | |  | e. | 2 percent. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 60. The table below shows the balance sheet of Eubank which holds no excess reserves. Assume that the required reserve ratio is 10%. If a student deposits $10,000 in cash into his checkable deposit account, then Eubank will have \_\_\_\_\_ in excess reserves.  ​  **Table 14.1**  ​  EUBANK   |  |  |  |  | | --- | --- | --- | --- | | Assets | ​ | Liabilities and Net Worth | ​ | | ​ | ​ | ​ | ​ | | Deposits at the Fed | $40,000 | Checkable deposits | $500,000 | | Cash | $10,000 | Net Worth | $20,000 | | Loans | $300,000 | ​ | ​ | | Securities | $150,000 | ​ | ​ | | Fed Stock | $20,000 | ​ | ​ |  |  |  |  | | --- | --- | --- | |  | a. | $10,000 | |  | b. | $1,000 | |  | c. | $9,000 | |  | d. | $60,000 | |  | e. | $6,000 |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 61. The table below shows the balance sheet of Eubank. If the interest rate on loans is 10 percent, the annual cost to Eubank of holding excess reserves is:​  ​  **Table 14.1**  ​  EUBANK   |  |  |  |  | | --- | --- | --- | --- | | Assets | ​ | Liabilities and Net Worth | ​ | | ​ | ​ | ​ | ​ | | Deposits at the Fed | $40,000 | Checkable deposits | $500,000 | | Cash | $10,000 | Net Worth | $20,000 | | Loans | $300,000 | ​ | ​ | | Securities | $150,000 | ​ | ​ | | Fed Stock | $20,000 | ​ | ​ |  |  |  |  | | --- | --- | --- | |  | a. | ​10 percent of $500,000. | |  | b. | ​10 percent of net worth. | |  | c. | ​10 percent of excess reserves. | |  | d. | ​$10,000. | |  | e. | ​0. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 62. Which of the following enables commercial banks to create money?   |  |  |  | | --- | --- | --- | |  | a. | Required reserves | |  | b. | Excess reserves | |  | c. | State and local government securities | |  | d. | U.S. government securities | |  | e. | Net worth |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 63. The table below shows the balance sheet of Countybank. Which of the following transactions is most likely to have just taken place at Countybank?  ​  **Table 14.2**  ​  COUNTYBANK   |  |  |  |  | | --- | --- | --- | --- | | Assets | ​ | Liabilities and Net Worth | ​ | | ​ | ​ | ​ | ​ | | Cash | $1,000 | Checkable deposits | $1,000 |  |  |  |  | | --- | --- | --- | |  | a. | A customer withdrew $1,000 from her checking account. | |  | b. | A customer deposited a $1,000 check into her savings account. | |  | c. | A customer deposited $1,000 into her checking account. | |  | d. | The bank purchased a security worth $1,000. | |  | e. | The bank borrowed $1,000 from the Federal Reserve. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 64. The table below shows the balance sheet of Countybank. If the required reserve ratio is 10 percent, this bank alone can now increase its lending by \_\_\_\_\_.​  ​  **Table 14.2**  ​  COUNTYBANK   |  |  |  |  | | --- | --- | --- | --- | | Assets | ​ | Liabilities and Net Worth | ​ | | ​ | ​ | ​ | ​ | | Cash | $1,000 | Checkable deposits | $1,000 |  |  |  |  | | --- | --- | --- | |  | a. | ​$1,000 | |  | b. | ​$10,000 | |  | c. | ​$0 | |  | d. | ​$90 | |  | e. | ​$900 |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 65. Which of the following would likely increase the money supply?   |  |  |  | | --- | --- | --- | |  | a. | The purchase of government securities by one bank from another bank | |  | b. | An increase in the required reserve ratio | |  | c. | An increase in the reserves of a commercial bank | |  | d. | An increase in the discount rate | |  | e. | The sale of government securities by a bank to the Fed |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 66. If the Fed purchases government securities in the open market, \_\_\_\_\_.​   |  |  |  | | --- | --- | --- | |  | a. | ​the money supply will decrease | |  | b. | ​the money supply will increase only if the seller of those securities is a commercial bank | |  | c. | ​the money demand will increase immediately | |  | d. | ​the money demand will decrease immediately | |  | e. | ​the money supply will increase through the commercial banking system regardless of who the seller is |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 67. In the money and credit expansion process, the total change in checkable deposits is equal to the initial change in excess reserves \_\_\_\_\_.​   |  |  |  | | --- | --- | --- | |  | a. | ​multiplied by the required reserve ratio | |  | b. | ​plus the change in required reserves | |  | c. | ​divided by the reciprocal of the required reserve ratio | |  | d. | ​multiplied by the reciprocal of the required reserve ratio | |  | e. | ​divided by the change in required reserves |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 68. If the required reserve ratio is 10 percent and the Fed buys a $5,000 security from a depository institution, the money supply:​   |  |  |  | | --- | --- | --- | |  | a. | ​increases by $15,000. | |  | b. | ​increases by $5,000. | |  | c. | ​decreases by $5,000. | |  | d. | ​increases by $50,000. | |  | e. | ​decreases by $50,000. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 69. If the required reserve ratio is 20 percent and the Fed buys a $10,000 security from a depository institution that currently has no excess reserves, the money supply:​   |  |  |  | | --- | --- | --- | |  | a. | ​decreases by $10,000. | |  | b. | ​increases by $5,000. | |  | c. | ​decreases by $5,000. | |  | d. | ​increases by $50,000. | |  | e. | ​decreases by $50,000. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 70. The money expansion process continues until there are no more:   |  |  |  | | --- | --- | --- | |  | a. | required reserves in the banking system. | |  | b. | demand deposits in the banking system. | |  | c. | excess reserves in the banking system that banks are willing to lend. | |  | d. | liabilities in the banking system. | |  | e. | assets in the banking system. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 71. Money expansion stops when new reserves introduced into the banking system have been converted into:​   |  |  |  | | --- | --- | --- | |  | a. | ​excess reserves. | |  | b. | ​securities. | |  | c. | ​deposits. | |  | d. | ​required reserves. | |  | e. | ​loans. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 72. The banking system creates money in the sense that it:   |  |  |  | | --- | --- | --- | |  | a. | prints money. | |  | b. | creates excess reserves from loans. | |  | c. | creates loans from excess reserves. | |  | d. | creates required reserves from loans. | |  | e. | creates loans from required reserves. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 73. The Reserve Bank of Glassen is the apex banking institution in the country of Glassen. Money supply in Glassen will increase when:​   |  |  |  | | --- | --- | --- | |  | a. | ​the Reserve Bank of Glassen buys bonds from commercial banks. | |  | b. | ​the Reserve Bank of Glassen raises the required reserve ratio for commercial banks. | |  | c. | ​the Reserve Bank of Glassen sells government bonds to commercial banks. | |  | d. | ​the Reserve Bank of Glassen raises the discount rate for commercial banks. | |  | e. | ​the Reserve Bank of Glassen prints new checks. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 74. The simple money multiplier:​   |  |  |  | | --- | --- | --- | |  | a. | ​equals the reciprocal of the required reserve ratio. | |  | b. | ​assumes banks hold excess reserves. | |  | c. | ​becomes larger as the required reserve ratio increases. | |  | d. | ​equals required reserves plus excess reserves. | |  | e. | ​equals total reserves minus required reserves. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 75. If r is the required reserve ratio, which of the following is the simple money multiplier?   |  |  |  | | --- | --- | --- | |  | a. | r | |  | b. | 1/(1 - r) | |  | c. | 1 - r | |  | d. | 1/r | |  | e. | 2r |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 76. If the simple money multiplier is 5, the required reserve ratio must be equal to \_\_\_\_\_.​   |  |  |  | | --- | --- | --- | |  | a. | ​5 percent | |  | b. | ​0 | |  | c. | ​10 percent | |  | d. | ​50 percent | |  | e. | ​20 percent |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 77. Suppose the reserve requirement is 15 percent. Which of the following is true?​   |  |  |  | | --- | --- | --- | |  | a. | ​The simple money multiplier is 15. | |  | b. | ​The simple money multiplier is 1/15. | |  | c. | ​The simple money multiplier is 30,000. | |  | d. | ​The simple money multiplier is 1/30,000. | |  | e. | ​The simple money multiplier is 1/0.15. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 78. Suppose checking deposits increase by $6,000 after all rounds of the money-creation process when the Fed buys $1,200 worth of U.S. government securities. This implies that the maximum value of the required reserve ratio is:​   |  |  |  | | --- | --- | --- | |  | a. | ​5. | |  | b. | ​0.75. | |  | c. | ​0.2. | |  | d. | ​1.2. | |  | e. | ​1.0. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 79. If an increase of $10 million in excess reserves increases checkable deposits in the banking system by a maximum of $200 million, the required reserve ratio is:   |  |  |  | | --- | --- | --- | |  | a. | 0 percent. | |  | b. | 5 percent. | |  | c. | 10 percent. | |  | d. | 20 percent. | |  | e. | 2 percent. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 80. If the required reserve ratio is 0.2, and the Fed buys $3,000 of U.S. government securities, the maximum amount by which the money supply can increase is:​   |  |  |  | | --- | --- | --- | |  | a. | ​$200. | |  | b. | ​$2,000. | |  | c. | ​$600. | |  | d. | ​$15,000. | |  | e. | ​$1,500. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 81. Suppose the required reserve ratio is 0.2 and the Fed buys $100,000 in government securities from Big Bank. The commercial banking system creates \_\_\_\_\_ as a result of this initial injection by the Fed.​   |  |  |  | | --- | --- | --- | |  | a. | ​$1,000,000 | |  | b. | ​$500,000 | |  | c. | ​$100,000 | |  | d. | ​$80,000 | |  | e. | ​$200,000 |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 82. The higher the required reserve ratio, \_\_\_\_\_.​   |  |  |  | | --- | --- | --- | |  | a. | ​the larger the money multiplier | |  | b. | ​the smaller the money multiplier | |  | c. | ​the more the excess reserves after each round of the money-creation process | |  | d. | ​the more the money that can be lent in each round of the money-creation process | |  | e. | ​the lower the demand for cash by the non-banking public |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 83. If the Fed increases the required reserve ratio at a time when banks are holding excess reserves, then:   |  |  |  | | --- | --- | --- | |  | a. | the Fed's aim is to increase the money supply. | |  | b. | banks are likely to lend out more money than they would if the Fed left the reserve ratio alone. | |  | c. | banks are likely to earn higher profits than they would if the Fed left the reserve ratio alone. | |  | d. | the money supply will not increase as much as it would if the Fed left the reserve ratio alone. | |  | e. | the Fed's aim is to conduct open market operations without changing the money supply. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 84. If each bank in the United States had to keep 100 percent of checkable deposits as reserves, each $1 the Fed injected into new reserves could increase the money supply by:​   |  |  |  | | --- | --- | --- | |  | a. | ​$1. | |  | b. | ​$2. | |  | c. | ​$100. | |  | d. | ​$5. | |  | e. | ​a penny. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 85. Suppose the reserve requirement ratio is 20 percent. Assuming no bank holds excess reserves and nobody withdraws cash, a $10,000 injection of new reserves by the Fed can create:​   |  |  |  | | --- | --- | --- | |  | a. | ​$2,000 in new checkable deposits. | |  | b. | ​$10,000 in new checkable deposits. | |  | c. | ​$50,000 in new checkable deposits. | |  | d. | ​$500,000 in new checkable deposits. | |  | e. | ​$5,000 in cash. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 86. The actual money multiplier is smaller than the simple money multiplier because:   |  |  |  | | --- | --- | --- | |  | a. | the actual multiplier affects M2 rather than M1. | |  | b. | cash withdrawals reduce the amount banks can lend out. | |  | c. | the actual multiplier affects the amount of excess reserves each bank holds. | |  | d. | the size of the simple multiplier depends on the volume of deposits unlike the actual multiplier. | |  | e. | the actual multiplier uses a different measure of reserve requirements. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 87. If borrowers choose to hold a portion of newly received loan as cash instead of keeping the loans in checking accounts, \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | the money supply will not increase as much as it would if borrowers were to deposit all of the money in banks | |  | b. | the money supply will remain unchanged | |  | c. | the money supply will decrease as much as it would if borrowers were to deposit all the money in banks | |  | d. | the banking system will collapse | |  | e. | the economy will experience a recession |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 88. The extent of money expansion will be:​   |  |  |  | | --- | --- | --- | |  | a. | ​greater if banks hold on to excess reserves. | |  | b. | ​greater if private individuals hold on to cash. | |  | c. | ​greater if banks hold on to excess reserves but less if private individuals hold on to cash. | |  | d. | ​less if banks hold on to excess reserves but greater if private individuals hold on to cash. | |  | e. | ​less if banks hold on to excess reserves or private individuals hold on to cash. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 89. When the Fed sells U.S. government securities to a member bank, the immediate effect on that bank's balance sheet is a(n):   |  |  |  | | --- | --- | --- | |  | a. | decrease in assets and an increase in liabilities. | |  | b. | increase in assets and a decrease in liabilities. | |  | c. | increase in both assets and liabilities. | |  | d. | decrease in both assets and liabilities. | |  | e. | change in the type of assets the bank is holding, but no change in liabilities. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 90. Suppose the Fed sells $10 million in government securities to a commercial bank. If the required reserve ratio is 0.2, what is the maximum amount by which checkable deposits in the banking system can change?   |  |  |  | | --- | --- | --- | |  | a. | +$10,000,000 | |  | b. | ?$10,000,000 | |  | c. | +$50,000,000 | |  | d. | ?$50,000,000 | |  | e. | +$20,000,000 |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 91. Suppose the required reserve ratio is 0.2, and the Fed buys $5,000 of U.S. government securities from Bank A, which lends $4,000 and keeps $1,000 in its vault as cash. In this round of the money-creation process, the M1 money supply has increased by:​   |  |  |  | | --- | --- | --- | |  | a. | ​$1,000. | |  | b. | ​$4,000. | |  | c. | ​$5,000. | |  | d. | ​$10,000. | |  | e. | ​$3,000. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 92. Suppose The United Bank of Glassen has loaned $250 to Mr. Joseph Langdon for his business. Mr. Langdon repays the loan with a check written against his own bank, Rexan Bank. Which of the following is likely to happen as a result of this transaction?​   |  |  |  | | --- | --- | --- | |  | a. | ​The reserves at the United Bank of Glassen will fall. | |  | b. | ​The reserves at Rexan Bank will increase. | |  | c. | ​Checkable deposits at Rexan Bank will increase. | |  | d. | ​Rexan Bank will make more loans than before. | |  | e. | ​The reserves and checkable deposits of Rexan Bank will decrease. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 93. The table below shows the balance sheet of Leftbank. Which of the following transactions has just taken place at Leftbank?​    **Table 14.3**  ​  LEFTBANK   |  |  |  | | --- | --- | --- | | Assets | ​ | Liabilities and Net Worth | | ​ | ​ | ​ | | Deposits with the Fed | −$10,000 | ​ | | U.S. Government securities | $10,000 | ​ |  |  |  |  | | --- | --- | --- | |  | a. | ​The bank received a shipment of cash from the Fed. | |  | b. | ​A customer deposited $10,000 cash in his account. | |  | c. | ​The bank sold a security to the Fed. | |  | d. | ​The Fed sold a security to the bank. | |  | e. | ​The bank borrowed $10,000 from the Fed. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 94. The table below shows the balance sheet of Leftbank. Leftbank's total reserves:  ​  **Table 14.3**  ​  LEFTBANK   |  |  |  | | --- | --- | --- | | Assets | ​ | Liabilities and Net Worth | | ​ | ​ | ​ | | Deposits with the Fed | −$10,000 | ​ | | U.S. Government securities | $10,000 | ​ |  |  |  |  | | --- | --- | --- | |  | a. | rose by $9,000. | |  | b. | were not affected by this transaction. | |  | c. | fell by $9,000. | |  | d. | fell by $10,000. | |  | e. | rose by $10,000. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 95. Which of the following is not an activity of the Fed?   |  |  |  | | --- | --- | --- | |  | a. | Making loans to the public | |  | b. | Clearing banks' checks | |  | c. | Lending funds to the federal government | |  | d. | Purchasing U.S. government securities | |  | e. | Holding deposits of the U.S. Treasury |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 96. Which of the following statements is correct?​   |  |  |  | | --- | --- | --- | |  | a. | ​To control the money supply, the Fed relies primarily on the reserve requirement. | |  | b. | ​The discount rate is the rate of interest banks charge to their best customers. | |  | c. | ​The Fed changes the reserve requirement frequently. | |  | d. | ​Because the Fed has no way to earn income, it is dependent upon Congress for appropriations. | |  | e. | ​Banks can turn a borrower's IOU into money. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 97. Open market operations involve:​   |  |  |  | | --- | --- | --- | |  | a. | ​opening the discount window. | |  | b. | ​buying stocks in the stock market. | |  | c. | ​buying and selling government securities in the open market. | |  | d. | ​opening new markets for commodities. | |  | e. | ​selling failed banks to other banks. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 98. If the Fed decreases the required reserve ratio at a time when banks are holding no excess reserves, the Fed is:​   |  |  |  | | --- | --- | --- | |  | a. | ​forcing banks to increase the money supply. | |  | b. | ​forcing banks to decrease the money supply. | |  | c. | ​making it possible for banks to increase the money supply but not forcing them to do so. | |  | d. | ​making it possible for banks to decrease the money supply but not forcing them to do so. | |  | e. | ​conducting open market operations but not changing the money supply. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 99. The Fed's purchase of U.S. government securities constitutes a(n):   |  |  |  | | --- | --- | --- | |  | a. | contractionary policy because it lowers the amount of total reserves in the banking system. | |  | b. | contractionary policy because it lowers the amount of excess reserves in the banking system. | |  | c. | expansionary policy because it raises the amount of total reserves in the banking system. | |  | d. | expansionary policy because it lowers the amount of total reserves in the banking system. | |  | e. | expansionary policy because it raises the amount of required reserves in the banking system. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 100. The primary tool the Fed uses to control the money supply today is:   |  |  |  | | --- | --- | --- | |  | a. | the discount rate. | |  | b. | the required reserve ratio. | |  | c. | the federal funds rate | |  | d. | chartering. | |  | e. | open market operations. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 101. Raising the discount rate is:   |  |  |  | | --- | --- | --- | |  | a. | an expansionary policy because it raises the ratio of excess reserves to total reserves in the banking system. | |  | b. | a contractionary policy on the part of the member banks of the Fed because it raises the firms' costs of borrowing from them. | |  | c. | a contractionary policy on the part of the Fed because it raises the commercial banks' cost of borrowing from it. | |  | d. | an expansionary policy on the part of the member banks of the Fed because it raises their profits relative to those of the nonmember banks. | |  | e. | an expansionary policy on the part of the Fed because increasing the interest rates that the banks are allowed to charge will increase their willingness to make loans. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 102. The Federal Reserve may increase the money supply by:   |  |  |  | | --- | --- | --- | |  | a. | selling a bond to a member bank. | |  | b. | selling a bond to a securities dealer. | |  | c. | lending reserves to banks. | |  | d. | increases the required reserve ratio. | |  | e. | increasing the discount rate. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 103. Lowering the discount rate:​   |  |  |  | | --- | --- | --- | |  | a. | ​encourages banks to borrow from the Fed, and they can more easily accommodate their customers' needs for loans. | |  | b. | ​encourages business customers to borrow directly from the Fed. | |  | c. | ​reduces the amount of reserves banks are required to keep. | |  | d. | ​automatically reduces excess reserves. | |  | e. | ​encourages banks to sell U.S. government securities and increase their cash reserves. |  |  |  | | --- | --- | | *ANSWER:* | a | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| 104. To increase the money supply, the Fed might:​   |  |  |  | | --- | --- | --- | |  | a. | ​increase the reserve requirement and the discount rate. | |  | b. | ​decrease the reserve requirement and the discount rate. | |  | c. | ​increase the reserve requirement and decrease the discount rate. | |  | d. | ​sell government securities and increase the discount rate. | |  | e. | ​sell bonds on the open market and increase the reserve requirement |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 105. To increase the money supply, the Fed might:​   |  |  |  | | --- | --- | --- | |  | a. | ​increase the discount rate and sell bonds in the open market. | |  | b. | ​decrease the reserve requirement and buy bonds in the open market. | |  | c. | ​increase the reserve requirement and sell bonds in the open market. | |  | d. | ​increase the discount rate and lower the reserve requirement. | |  | e. | ​sell government securities and increase the discount rate. |  |  |  | | --- | --- | | *ANSWER:* | b | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| 106. Assume that there are no excess reserves in the banking system when the reserve requirement is 20%. The purchase of $10,000 in U.S. government securities by the Fed from Academy National Bank has the potential to ultimately increase the money supply by:​   |  |  |  | | --- | --- | --- | |  | a. | ​$2,000. | |  | b. | ​$8,000. | |  | c. | ​$10,000. | |  | d. | ​$20,000. | |  | e. | ​$50,000. |  |  |  | | --- | --- | | *ANSWER:* | e | |

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| 107. Which of the following is the largest component of the assets of the Federal Reserve?   |  |  |  | | --- | --- | --- | |  | a. | U.S. Treasury deposits | |  | b. | U.S. government securities | |  | c. | Foreign exchange | |  | d. | Time deposits | |  | e. | Checkable deposits |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 108. Which of the following measures did the Fed take during the uncertain days following the terrorist attacks of September 11, 2001?​   |  |  |  | | --- | --- | --- | |  | a. | ​The Fed tightened regulations in the financial markets. | |  | b. | ​The Fed increased the discount rate. | |  | c. | ​The Fed bought all the government securities up for sale. | |  | d. | ​The Fed increased the reserve requirement ratio. | |  | e. | ​The Fed demanded interest on the bank reserves held at the Fed. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 109. Which of the following measures did the Fed take during the financial crisis of 2008?​   |  |  |  | | --- | --- | --- | |  | a. | ​The Fed lowered the discount rate and paid interest on reserves held at the Fed. | |  | b. | ​The Fed increased the reserve requirement ratio. | |  | c. | ​The Fed sold all government securities. | |  | d. | ​The Fed decreased its spending. | |  | e. | ​The Fed increased the discount rate. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 110. To prevent shortages of cash during a crisis, the Fed:​   |  |  |  | | --- | --- | --- | |  | a. | ​saves up cash in bank vaults around the country and the world. | |  | b. | ​reduces liquidity in the economy so that more cash can be saved. | |  | c. | ​sells U.S. government securities to commercial banks. | |  | d. | ​demands interest payments on reserves held at the Fed. | |  | e. | ​increases the discount rate. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 111. The immediate effect of a bank's purchase of U.S. government securities from the Fed is a(n):   |  |  |  | | --- | --- | --- | |  | a. | decrease in the bank's assets. | |  | b. | increase in the reserve requirements. | |  | c. | decrease in the Fed's assets. | |  | d. | increase in the Fed's assets. | |  | e. | decrease in the discount rate. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 112. Most of the Fed's liabilities are in the form of:​   |  |  |  | | --- | --- | --- | |  | a. | ​Federal Reserve notes. | |  | b. | ​checkable deposits. | |  | c. | ​U.S. Treasury deposits. | |  | d. | ​loans to member banks. | |  | e. | ​certificates of deposit. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| --- |
| **True / False** |

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| 113. ​The narrow definition of the money supply includes only currency held by the nonbanking public.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 114. In the United States, paper money is redeemable for gold.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 115. Currency held by the nonbanking public is a medium of exchange.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 116. M2 is the narrow measure of the money supply.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 117. M1 includes currency held in bank vaults.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 118. Savings accounts have specific maturity dates.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 119. Savings deposits and time deposits are not included in M1 because these are not held by the nonbanking public.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 120. Credit cards are included in M2.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 121. Debit cards are safer than credit cards because debit cards generally require a PIN number.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 122. When using a debit card, a customer directly uses his or her checking account.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 123. Usually, a commercial bank's depositors and its owners are the same individuals.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 124. ​Banks create money when they make loans.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 125. Banks are required to hold reserves against the total value of all their assets.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 126. If you know the required reserve ratio, then you know how much each bank is holding in reserves.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 127. If a bank's reserves are exactly equal to the required amount of reserves, then it has no excess reserves.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 128. Banks are permitted to lend all of their reserves.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 129. In commercial banking operations, there is a trade-off between liquidity and profitability.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 130. Banks in need of reserves can borrow from the Fed or in the federal funds market.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 131. From a bank's point of view, its deposits are liabilities.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 132. If a bank borrows $1,000 from the Fed and lends it out, the bank sets in motion a process that will result in an expansion of the money supply by a multiple of that $1,000.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 133. When the Fed buys U.S. government securities from a member bank, that bank's excess reserves, required reserves, and total reserves all increase.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 134. When the Fed buys U.S. government securities from a bank, that bank's excess reserves and required reserves increase but total reserves decrease.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 135. If banks choose not to lend out their excess reserves, the money supply will not expand.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 136. Money supply would expand if people chose to hold borrowed funds in cash rather than in checking accounts.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 137. When the Fed buys U.S. government securities from a bank, that bank's excess reserves and total reserves increase, but there is no change in required reserves.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 138. If the Fed wishes to reduce the money supply, it can sell U.S. government securities to member banks.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 139. If the Fed buys a $1,000 U.S. government bond from a bank, it pays for it by giving the bank $1,000 in reserves-reserves that it simply creates out of thin air.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 140. If a bank receives $2,500 of reserves by selling a government bond to the Fed, its ability to make loans increases by $2,500.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 141. The Fed relies primarily on the discount rate to control the money supply.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 142. If a bank receives $1,000 in currency as a new deposit, its ability to make loans increases by $1,000.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 143. The Fed primarily uses the reserve requirement to control the money supply.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 144. The Fed tries to prevent major financial crises through its control of financial markets.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 145. During the 2008 crisis, the Fed demanded interest payments on reserves held at the Fed.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 146. Decreasing the required reserve ratio is an expansionary policy because it increases the amount of excess reserves in the banking system.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 147. A higher discount rate generally decreases excess reserves.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 148. One of the main functions of the Fed is minting U.S. coins.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 149. By reducing the required reserve ratio, the Fed can not only create excess reserves but also increase the money multiplier.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 150. A fall in the discount rate will usually encourage banks to borrow from the Fed and therefore reduce the money supply.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |