Economics 212
Quiz II

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Name: [illegible]

Instructor: [illegible]

100% Multiple Choice (50 questions)

96

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-7

Table 23-2

Jogging Shoes

Prices at Four 10-Year Intervals

1948	1958	1968	1978	1988
\$4.50	\$6.00	\$13.00	\$28.00	\$65.00

The CPI in 1987 dollars is listed below for each year.

1948:	24.1
1958:	28.9
1968:	34.8
1978:	65.2
1988:	120.5

1. According to Table 23-2, what was the value of a pair of jogging shoes in 1978 measured in 1987 dollars?
   a. \$18.25
   b. \$28
   c. \$42.94
   d. \$58
   e. \$93.20

   $\frac{28.00}{65.2}$

2. According to Table 23-2, which decade had the fastest growth in current-dollar prices for jogging shoes?
   a. 1948-1958
   b. 1958-1968
   c. 1968-1978
   d. 1978-1988

3. According to Table 23-2, which decade had the fastest growth in constant-dollar prices for jogging shoes?
   a. 1948-1958
   b. 1958-1968
   c. 1968-1978
   d. 1978-1988

4. The money creation formula is oversimplified because it assumes that
   a. every recipient of a bank loan will redeposit the proceeds of that loan into another bank.
   b. every bank will hold zero excess reserves.
   c. loan recipients do not keep any of the proceeds from the loan in cash.
   d. All of the above are correct.

5. Excess reserves make a bank less vulnerable to runs, but bankers don't like to hold excess reserves because
   a. holding excess reserves means lower profits for banks.
   b. holding excess reserves is frowned on by bank examiners.
   c. holding excess reserves is indefensible to the bank's stockholders if the economy is turning down.
   d. All of the above are correct.

Table 23-4

Average Weekly Earnings of [redacted] Workers

27

1948	1958	1968	1978	1988
\$49	\$75.08	\$107.73	\$203.70	\$326.87

The CPI in 1987 dollars is listed below for each year.

1948: 24.1

1958: 28.9

1968: 34.8

1978: 65.2

1988: 120.5

? 6 • In Table 23-4, which decade had the fastest growth of money wages?
a. 1948-1958
b. 1958-1968
c. 1968-1978
d. 1978-1988

? 7 • In Table 23-4, which decade had the fastest growth of real wages?
a. 1948-1958
b. 1958-1968
c. 1968-1978
d. 1978-1988

? 8 • From 1978 to 1988, what happened to the real wage of [redacted] workers? (See Table 23-4.)
a. It increased by 15 percent.
b. It was virtually the same in 1988 as in 1978.
c. It decreased by 13 percent.
d. It decreased by 3 percent.

? 9 • The Macro-Easy National Bank has \$2 million in reserves and \$8.5 million in other assets. Its checking deposits are \$6 million, other liabilities and net worth \$4.5 million. The Macro-Easy National Bank wants to expand its loans. With a required reserve ratio of 10 percent, what is the maximum level of new loans this bank can safely create?
a. \$10.4 million
b. \$1.4 million
c. \$1.2 million
d. \$.6 million
e. zero

R = 2
8.5
10.5

C
4.5
10.5

10 • If a bank has \$1.5 million in reserves and checking deposits of \$4 million, what is the bank's reserve position if the required reserve ratio is 20 percent?
a. The bank has \$300,000 of required reserves and \$1,200,000 of excess reserves.
b. The bank has \$300,000 of required reserves and \$3,700,000 of excess reserves.
c. The bank has \$800,000 of required reserves and \$700,000 of excess reserves.
d. The bank has \$800,000 of required reserves and \$3,200,000 of excess reserves.

11 • Barter is a system of
a. trade with one good being traded directly for another..
b. double coincidence of wants.
c. trade without using money as an intermediate step.
d. All of the above are correct.

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Table 29-1

Bank of Macroland
Balance Sheet
December 31, 1993

Required Reserve Ratio = 10 percent

ASSETS		LIABILITIES AND NET WORTH	
Assets		Liabilities	
Reserves	$ 500,000	Checking deposits	$ 7,000,000
Loans outstanding	7,500,000	Other liabilities	2,500,000
Other assets	2,000,000		
		Net Worth	
		Stockholders' equity	500,000
Total	$10,000,000	Total	$10,000,000

12 • In Table 29-1, the required reserves for the Bank of Macroland are ______________. Required reserve ratio = 10 percent.
a. $700,000
b. $500,000
c. $200,000
d. $100,000
e. zero

13 • In Table 29-1, the Bank of Macroland can prudently create new loans equal to _______________.
a. $700,000
b. $500,000
c. $200,000
d. $100,000
e. zero

14 • From Table 29-1 (with a required reserve ratio of 10 percent), calculate the change in the money supply for the nation's banking system.
a. $2,500,000
b. $2,000,000
c. $1,000,000
d. -$1,000,000
e. -$2,000,000

$-200000 \times \frac{1}{10\%}$

C.B.

15 • Assume the required reserve ratio is 25 percent and the [redacted] orders an open market purchase of $200 million in U.S. government securities from the nation's banks. If the banks do not want to hold excess reserves and the public does not want to hold additional cash, then
a. the money supply will contract $200 million.
b. the money supply will expand $200 million.
c. the money supply will contract $800 million.
d. the money supply will expand $800 million.

C.B.

16 • If the [redacted] orders a sale of government securities in the open market, then
a. bank reserves are reduced and a multiple contraction of the money supply occurs.
b. bank reserves are reduced, but the money supply will be maintained at the previous level if the banks call in some outstanding loans.
c. bank reserves are increased and a multiple expansion of the money supply occurs.
d. bank reserves are increased, but a multiple expansion of the money supply is unlikely unless the economy is in a deep recession.

17 . You purchased a bond in 1985 for $1,000 that pays $60 per year interest. If you sell the bond for $500, the purchaser will earn an effective interest rate of __________.

a. 3 percent
b. 6 percent
c. 10 percent
d. 12 percent
e. 15 percent

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500 → 60
100 → X
100×60 / 500

18 . The relationship between bond prices and interest rates is

a. when bond prices fall, interest rates rise.
b. when bond prices rise, interest rates rise.
c. when interest rates rise, bond prices rise.
d. None of the above is correct.

19 . If the Federal Reserve lowers the required reserve ratio,

a. total bank reserves will increase.
b. total bank reserves will decrease.
c. excess reserves will increase.
d. excess reserves will decrease.

20 . If the Fed wants to give banks more reserves, it can

a. sell securities in the open market.
b. raise the required reserve ratio.
c. lower the discount rate.
d. raise the federal funds rate.
e. All of the above are correct.

21 . Banks will hold substantial excess reserves when

a. loans to customers look safe and when interest rates are high.
b. the economy is booming and there is a great demand for business loans.
c. loans to customers look unusually risky or if interest rates are very low.
d. they anticipate a bank audit.

22 . The demand for money

a. will fall if the price level rises.
b. will rise as real GDP rises.
c. will fall as real GDP rises.
d. does not depend on real GDP or the price level.

23 . The interest rate

a. is the opportunity cost of holding money balances.
b. does not influence the quantity of money that people demand.
c. falls when bond prices fall.
d. increases when the money supply increases.

24 . The effect of monetary policy on aggregate demand depends on

a. the sensitivity of interest rates to the money supply.
b. the responsiveness of investment spending to the interest rate.
c. the size of the multiplier.
d. All of the above are correct.

25 . Open market purchase of bonds by the Fed causes

a. the money supply to fall and bond prices to go up.
b. the money supply to rise and bond prices to go up.
c. the money supply to rise and bond prices to go down.
d. the money supply to fall and bond prices to go down.

Table 30-1

EFFECTS OF AN OPEN-MARKET TRANSACTION

ON THE

BALANCE SHEETS OF BANKS AND THE FED

(30)

(In millions of dollars)

BANKS		FEDERAL RESERVE SYSTEM	
ASSETS	LIAB.	ASSETS	LIAB.
Reserves +\$10	50	U.S. Gov't	Bank
U.S. Gov't		Sec. +\$10	Res. +\$10
Securities -\$10			

26 In Table 30-1, the Federal Reserve System has

a. purchased \$10 million of U.S. government securities from banks, paying for them with an increase in member bank reserves.

b. sold \$10 million of U.S. government securities to banks, taking payment from the banks' reserves.

c. purchased \$10 million of U.S. government securities from banks, paying for them in Federal Reserve notes.

d. sold \$10 million of U.S. government securities to banks, taking payment in cash.

27 In Table 30-1, if the required reserve ratio for banks is 20 percent, what will happen to the money supply? Assume that banks do not hold excess reserves and that the public does not wish to hold additional cash.

a. The money supply will decrease \$50 million.

b. The money supply will decrease \$10 million.

c. The money supply will increase \$50 million.

d. The money supply will increase \$10 million.

e. The money supply will increase \$40 million.

28 After the transaction In Table 30-1 is completed, what happens to the actual reserves, required reserves, and excess reserves of the banking system? Assume the required reserve ratio is 20 percent.

a. Actual reserves increase \$10 million, required reserves increase \$2 million, and excess reserves increase \$8 million.

b. Actual reserves decrease \$10 million, required reserves decrease \$2 million, and excess reserves decrease \$8 million.

c. Actual reserves decrease \$10 million, required reserves are unchanged, and excess reserves decrease \$10 million.

d. Actual reserves increase \$10 million, required reserves are unchanged, and excess reserves increase \$10 million.

29 In what way do policy makers have to face up to a trade-off between inflation and unemployment?

a. The cost of reducing inflation by restrictive fiscal and monetary policies is a permanent rise in unemployment.

b. The cost of reducing inflation by restrictive fiscal and monetary policies is a temporary rise in unemployment.

c. The cost of reducing unemployment by expansionary fiscal and monetary policies is virtually nonexistent.

d. The inflationary cost of reducing unemployment by expansionary fiscal and monetary policies is higher in slack times than in boom times.

30 If workers and firms forecast inflation accurately,

a. the real wage will not decline as the price level rises.

b. workers will not lose from inflation, and firms will not gain.

c. the aggregate supply curve will be vertical.

d. All of the above are correct.

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If Figure 33-2 (a) illustrates the elimination of a recessionary gap, then the economy should move to what point on the curves shown in Figure 33-2 (b)?
a. from g to j
b. from e to r
c. from r to m
d. from r to j

32 If the economy in Figure 33-2 (b) is experiencing an inflationary gap (point g), the natural self-correcting process will move unemployment to ___ and inflation to ___.
a. 7 percent; 3 percent
b. 5.5 percent; 7 percent
c. 4 percent; 7 percent
d. 5.5 percent; 5 percent

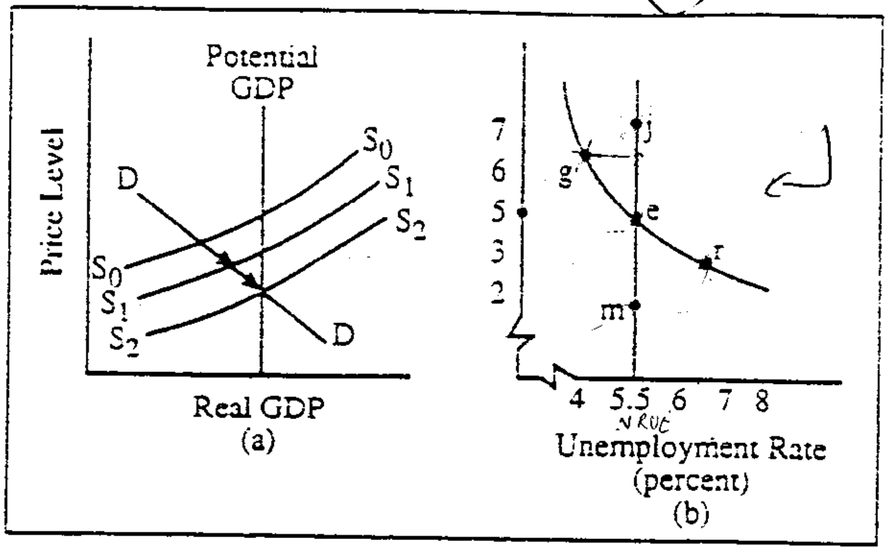

FIGURE 33-2

33 Figure 33-2 (b) illustrates that
a. the Phillips curve connecting points g, e, and r is not a menu of policy choices.
b. in the short run, it is possible to "ride up the Phillips curve" toward lower unemployment by stimulating aggregate demand.
c. in the short run, it is possible to "ride down the Phillips curve" toward lower rates of inflation.
d. All of the above are correct.

34 If the short-run Phillips curve is vertical,
a. fighting inflation will always cause a recession.
b. it would be possible for inflation to fall without unemployment rising.
c. to bring inflation down from 5 percent to 2 percent, the economy would have to endure a long recession.
d. expansionary fiscal and monetary policies would lower inflation without creating additional unemployment.

35 An important social cost of inflation is
a. that the general wage level fails to stay abreast of inflation.
b. that prices of finished goods rise but prices of raw materials are held constant by long-term contracts.
c. the capricious redistribution of income caused by unexpected inflation.
d. All of the above are correct.

36 Why do many economists oppose indexing?
a. They fear indexing will accelerate inflation.
b. They question the government's ability to apply indexing techniques fairly and equitably.
c. They prefer the operation of a free market, even if it is plagued by inflation.
d. All of the above are correct.

37 When fluctuations in economic activity emanate from the demand side,
a. unemployment and inflation will be inversely related.
b. unemployment and inflation will have a positive relationship.
c. prices will fall when real output grows rapidly.
d. the government will not have the ability to influence inflation or unemployment.

38. One common mistake is to confuse nominal and real interest rates. One result of inflation is that the economy can have

a. high nominal rates and low real rates at the same time.
b. high nominal rates and negative real rates at the same time.
c. low nominal rates and high real rates at the same time.
d. All of the above are correct.

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39. The illusion of high interest rates stems from confusing

a. inflation with a change in relative prices.
b. the real with the nominal rate of interest.
c. usury laws with rates of interest.
d. expected inflation with actual inflation.

40. When the CPI is based on 1967 prices, a consumer price index of 265 in 1980 means that

a. prices of consumer goods have gone up by 2.65 times.
b. what cost $100 in 1967 cost $265 in 1980.
c. prices of consumer goods have more than doubled.
d. All of the above are correct.

41. If the unemployment rate is 6 percent and the number of persons unemployed is six million, then the number employed is

a. 100 million.
b. 94 million.
c. 106 million.
d. also six million.

42. In the first quarter of 1983, nominal GDP was $3,311 billion and real GDP was $1,535 billion, according to preliminary estimates. These estimates suggest that in the first quarter of 1983, the value of the

a. CPI was 215.
b. CPI was 93.
c. GDP deflator was 215.
d. GDP deflator was 93.

43. If the population greater than 16 years of age is 150 million, the labor force is 110 million, and total employment is 98 million, then the unemployment rate is

a. 8 percent.
b. 34 percent.
c. 11 percent.
d. 27 percent.

44. Which of the following people is structurally unemployed?

a. Brendan left his job as a soda jerk in New Jersey to become a soda jerk in Madrid, New Mexico; he was unemployed for six weeks during the transition.
b. Mildred quit her job after giving birth to a child.
c. Clem, a skilled corset maker, lost his job when his factory shut down due to a permanent reduction in the demand for corsets.
d. Dwanella lost her job when the electronics assembly plant was shut down temporarily due to low sales of the product.

45. An increase in the reserve ratio tends to

a. raise excess reserves and raise the money multiplier.
b. lower excess reserves and raise the money multiplier.
c. increase excess reserves and lower the money multiplier.
d. lower excess reserves and lower the money multiplier.