

Chapter 17

Tools of Monetary Policy

■ Multiple Choice

- 1) The Fed uses three policy tools to manipulate the money supply: _____, which affect reserves and the monetary base; changes in _____, which affect reserves and the monetary base by influencing the quantity of discount loans; and changes in _____, which affect the money multiplier.
- (a) open market operations; the discount rate; margin requirements
 - (b) open market operations; the discount rate; reserve requirements
 - (c) the discount rate; open market operations; margin requirements
 - (d) the discount rate; open market operations; reserve requirements

Answer: B

Question Status: Previous Edition

- 2) The Fed uses three policy tools to manipulate the money supply: open market operations, which affect the _____; changes in the discount rate, which affect the _____ by influencing the quantity of discount loans; and changes in reserve requirements, which affect the _____.
- (a) money multiplier; monetary base; monetary base
 - (b) monetary base; money multiplier; monetary base
 - (c) monetary base; monetary base; money multiplier
 - (d) money multiplier; money multiplier; monetary base

Answer: C

Question Status: Previous Edition

- 3) The interest rate charged on overnight loans of reserves between banks is the
- (a) prime rate.
 - (b) discount rate.
 - (c) federal funds rate.
 - (d) Treasury bill rate.
 - (e) rediscount rate.

Answer: C

Question Status: New

- 4) The federal funds rate is the
- (a) interest rate on overnight loans of reserves between banks.
 - (b) interest rate on government debt.
 - (c) interest rate the government pays when borrowing from banks.
 - (d) all of the above.
 - (e) both (a) and (c) of the above.

Answer: A

Question Status: New

- 5) The primary indicator of the Fed's stance on monetary policy is
- (a) the discount rate.
 - (b) the federal funds rate.
 - (c) the growth rate of the monetary base.
 - (d) the growth rate of M2.
 - (e) the Treasury bill rate.

Answer: B

Question Status: New

- 6) The federal funds rate is important because it is
- (a) the primary indicator of the Fed's stance on monetary policy.
 - (b) the interest rate paid on federal debt.
 - (c) the interest rate charged on government loans.
 - (d) all of the above.
 - (e) both (a) and (c) of the above.

Answer: A

Question Status: New

- 7) The quantity of reserves demanded equals
- (a) required reserves plus discount loans.
 - (b) excess reserves plus discount loans.
 - (c) required reserves plus excess reserves.
 - (d) total reserves minus excess reserves.
 - (e) total reserves minus borrowed reserves.

Answer: C

Question Status: New

- 8) The quantity of reserves demanded rises when the
- (a) discount rate rises.
 - (b) discount rate falls.
 - (c) federal funds rate rises.
 - (d) federal funds rate falls.
 - (e) discount rate equals the federal funds rate.

Answer: D

Question Status: New

9) The opportunity cost of holding excess reserves is

- (a) the discount rate.
- (b) the prime rate.
- (c) the Treasury bill rate.
- (d) the federal funds rate.
- (e) the mortgage rate.

Answer: D

Question Status: New

10) A rise in the federal funds rate

- (a) increases the opportunity cost of holding required reserves.
- (b) lowers the opportunity cost of holding required reserves.
- (c) increases the opportunity cost of holding excess reserves.
- (d) lowers the opportunity cost of holding excess reserves.
- (e) lowers the opportunity cost of holding total reserves.

Answer: C

Question Status: New

11) Of the three policy tools that the Fed can use to change the money supply, the one that does not affect the monetary base is

- (a) open market operations.
- (b) changes in the discount rate.
- (c) changes in the federal funds rate.
- (d) reserve requirements.

Answer: D

Question Status: Previous Edition

12) In the market for reserves, when the federal funds interest rate is below the discount rate, the supply curve of reserves is

- (a) vertical.
- (b) horizontal.
- (c) positively sloped.
- (d) negatively sloped.
- (e) backward bending.

Answer: A

Question Status: New

13) When the federal funds rate exceeds the discount rate

- (a) the supply curve of reserves is vertical.
- (b) the supply curve of reserves has a positive slope.
- (c) the demand curve for reserves is vertical.
- (d) the demand curve for reserves is horizontal.
- (e) the demand curve for reserves has a positive slope.

Answer: B

Question Status: New

- 14) In the market for reserves, an open market purchase shifts the supply curve to the
- (a) left, lowering the federal funds interest rate.
 - (b) right, lowering the federal funds interest rate.
 - (c) right, raising the federal funds interest rate.
 - (d) left, raising the federal funds interest rate.

Answer: B

Question Status: Previous Edition

- 15) In the market for reserves, an open market _____ shifts the supply curve to the _____, lowering the federal funds interest rate.
- (a) sale; left
 - (b) sale; right
 - (c) purchase; right
 - (d) purchase; left

Answer: C

Question Status: Previous Edition

- 16) In the market for reserves, an open market _____ shifts the supply curve to the right, _____ the federal funds interest rate.
- (a) sale; lowering
 - (b) sale; raising
 - (c) purchase; lowering
 - (d) purchase; raising

Answer: C

Question Status: Previous Edition

- 17) In the market for reserves, an open market _____ shifts the supply curve to the _____, raising the federal funds interest rate.
- (a) sale; left
 - (b) sale; right
 - (c) purchase; right
 - (d) purchase; left

Answer: A

Question Status: Previous Edition

- 18) In the market for reserves, an open market purchase shifts the supply curve to the
- (a) left and causes the federal funds interest rate to rise.
 - (b) right and causes the federal funds interest rate to rise.
 - (c) right and causes the federal funds interest rate to fall.
 - (d) left and causes the federal funds interest rate to fall.

Answer: C

Question Status: Previous Edition

- 19) In the market for reserves, an open market _____ shifts the supply curve to the _____ and causes the federal funds interest rate to fall.
- (a) sale; left
 - (b) sale; right
 - (c) purchase; right
 - (d) purchase; left

Answer: C

Question Status: Previous Edition

- 20) In the market for reserves, an open market purchase shifts the supply curve to the _____ and causes the federal funds interest rate to _____.
- (a) left; fall
 - (b) right; fall
 - (c) right; rise
 - (d) left; rise

Answer: B

Question Status: Previous Edition

- 21) In the market for reserves, an open market _____ shifts the supply curve to the right and causes the federal funds interest rate to _____.
- (a) purchase; fall
 - (b) sale; fall
 - (c) purchase; rise
 - (d) sale; rise

Answer: A

Question Status: Previous Edition

- 22) In the market for reserves, an open market _____ shifts the supply curve to the left and causes the federal funds interest rate to _____.
- (a) purchase; fall
 - (b) sale; fall
 - (c) purchase; rise
 - (d) sale; rise

Answer: D

Question Status: Previous Edition

- 23) In the market for reserves, an open market _____ shifts the supply curve to the left, _____ the federal funds interest rate.
- (a) sale; lowering
 - (b) sale; raising
 - (c) purchase; lowering
 - (d) purchase; raising

Answer: B

Question Status: Revised

- 24) In the market for reserves, an open market sale shifts the supply curve to the
- (a) left, lowering the federal funds interest rate.
 - (b) right, lowering the federal funds interest rate.
 - (c) right, raising the federal funds interest rate.
 - (d) left, raising the federal funds interest rate.

Answer: D

Question Status: Previous Edition

- 25) In the market for reserves, an open market sale shifts the supply curve to the
- (a) left and causes the federal funds interest rate to rise.
 - (b) right and causes the federal funds interest rate to rise.
 - (c) right and causes the federal funds interest rate to fall.
 - (d) left and causes the federal funds interest rate to fall.

Answer: A

Question Status: Previous Edition

- 26) In the market for reserves, an open market _____ shifts the supply curve to the _____ and causes the federal funds interest rate to rise.
- (a) sale; left
 - (b) sale; right
 - (c) purchase; right
 - (d) purchase; left

Answer: A

Question Status: Previous Edition

- 27) In the market for reserves, an open market sale shifts the supply curve to the _____ and causes the federal funds interest rate to _____.
- (a) left; fall
 - (b) right; fall
 - (c) right; rise
 - (d) left; rise

Answer: D

Question Status: Previous Edition

- 28) In the market for reserves, a lower discount rate shifts the supply curve to the
- (a) left, lowering the federal funds interest rate.
 - (b) right, lowering the federal funds interest rate.
 - (c) right, raising the federal funds interest rate.
 - (d) left, raising the federal funds interest rate.

Answer: B

Question Status: Previous Edition

- 29) In the market for reserves, a _____ discount rate shifts the supply curve to the _____, lowering the federal funds interest rate.
- (a) lower; left
 - (b) lower; right
 - (c) higher; right
 - (d) higher; left

Answer: B

Question Status: Revised

- 30) In the market for reserves, a _____ discount rate shifts the supply curve to the right, _____ the federal funds interest rate.
- (a) lower; lowering
 - (b) higher; raising
 - (c) higher; lowering
 - (d) lower; raising

Answer: A

Question Status: Previous Edition

- 31) In the market for reserves, a lower discount rate shifts the _____ curve to the _____ and causes the federal funds interest rate to fall.
- (a) demand; left
 - (b) demand; right
 - (c) supply; right
 - (d) supply; left

Answer: C

Question Status: Previous Edition

- 32) In the market for reserves, a lower discount rate shifts the supply curve to the _____ and causes the federal funds interest rate to _____.
- (a) left; fall
 - (b) right; fall
 - (c) right; rise
 - (d) left; rise

Answer: B

Question Status: Previous Edition

- 33) In the market for reserves, a lower discount rate shifts the supply curve to the _____
- (a) left and causes the federal funds interest rate to rise.
 - (b) right and causes the federal funds interest rate to rise.
 - (c) right and causes the federal funds interest rate to fall.
 - (d) left and causes the federal funds interest rate to fall.

Answer: C

Question Status: Previous Edition

- 34) In the market for reserves, a _____ discount rate shifts the supply curve to the _____, raising the federal funds interest rate.
- (a) lower; left
 - (b) lower; right
 - (c) higher; right
 - (d) higher; left
- Answer: D
Question Status: Previous Edition
- 35) In the market for reserves, a _____ discount rate shifts the supply curve to the left, _____ the federal funds interest rate.
- (a) lower; lowering
 - (b) higher; raising
 - (c) higher; lowering
 - (d) lower; raising
- Answer: B
Question Status: Previous Edition
- 36) In the market for reserves, a higher discount rate shifts the supply curve to the
- (a) left, lowering the federal funds interest rate.
 - (b) right, lowering the federal funds interest rate.
 - (c) right, raising the federal funds interest rate.
 - (d) left, raising the federal funds interest rate.
- Answer: D
Question Status: Previous Edition
- 37) In the market for reserves, a higher discount rate shifts the supply curve to the
- (a) left and causes the federal funds interest rate to rise.
 - (b) right and causes the federal funds interest rate to rise.
 - (c) right and causes the federal funds interest rate to fall.
 - (d) left and causes the federal funds interest rate to fall.
- Answer: A
Question Status: Previous Edition
- 38) In the market for reserves, a higher discount rate shifts the _____ curve to the _____ and causes the federal funds interest rate to rise.
- (a) demand; left
 - (b) demand; right
 - (c) supply; right
 - (d) supply; left
- Answer: D
Question Status: Previous Edition

- 39) In the market for reserves, a higher discount rate shifts the supply curve to the _____ and causes the federal funds interest rate to _____.
- (a) left; fall
 - (b) right; fall
 - (c) right; rise
 - (d) left; rise

Answer: D

Question Status: Previous Edition

- 40) The vertical section of the supply curve of reserves falls when
- (a) the discount rate increases.
 - (b) the discount rate decreases.
 - (c) the federal funds rate rises.
 - (d) the federal funds rate falls.
 - (e) reserve requirements are increases.

Answer: B

Question Status: New

- 41) An increase in the discount rate
- (a) lowers the vertical section of the supply of reserves, and shifts the supply curve to the right.
 - (b) raises the vertical section of the supply of reserves, and shifts the supply curve to the left.
 - (c) raises the vertical section of the supply of reserves, and shifts the supply curve to the right.
 - (d) lowers the vertical section of the supply of reserves, and shifts the supply curve to the left.
 - (e) does not affect the vertical section of the supply of reserves, and shifts the supply curve to the left.

Answer: B

Question Status: New

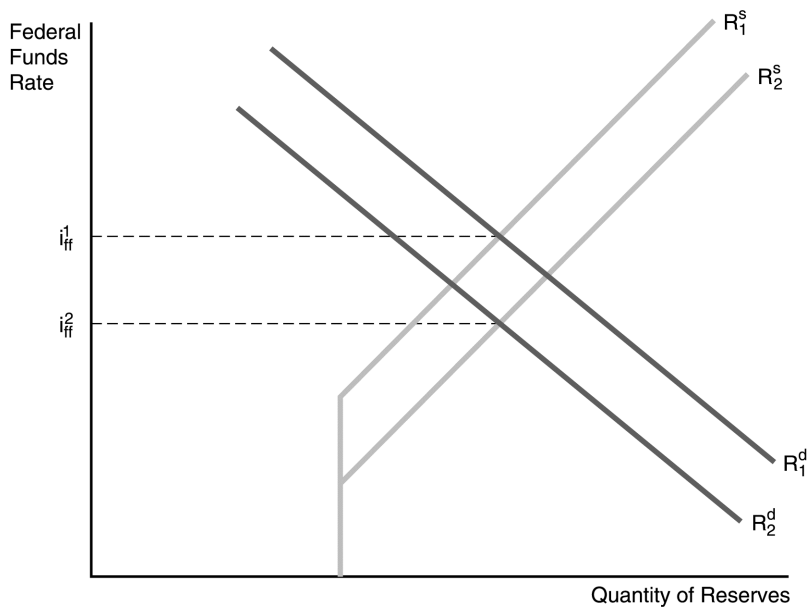


Figure 17-1

- 42) In Figure 17-1, an increase in the discount rate
- increases the supply of reserves from R_1^s to R_2^s , reducing the equilibrium federal funds rate from i_{ff}^1 to i_{ff}^2 .
 - reduces the supply of reserves from R_2^s to R_1^s , increasing the equilibrium federal funds rate from i_{ff}^2 to i_{ff}^1 .
 - increases the demand for reserves from R_2^d to R_1^d , increasing the equilibrium federal funds rate from i_{ff}^2 to i_{ff}^1 .
 - reduces the demand for reserves from R_1^d to R_2^d , reducing the equilibrium federal funds rate from i_{ff}^1 to i_{ff}^2 .
 - has no effect on the demand for or supply of reserves.

Answer: B

Question Status: New

- 43) In Figure 17-1, the supply of reserves is increased by
- open market sales.
 - a reduced discount rate.
 - a decrease in required reserves.
 - an increase in excess reserves.
 - a cut in the federal funds rate.

Answer: B

Question Status: New

- 44) In Figure 17-1, an increase reserve requirements
- (a) increases the supply of reserves from R_1^s to R_2^s , reducing the equilibrium federal funds rate from i_{ff}^1 to i_{ff}^2 .
 - (b) reduces the supply of reserves from R_2^s to R_1^s , increasing the equilibrium federal funds rate from i_{ff}^2 to i_{ff}^1 .
 - (c) increases the demand for reserves from R_2^d to R_1^d , increasing the equilibrium federal funds rate from i_{ff}^2 to i_{ff}^1 .
 - (d) reduces the demand for of reserves from R_1^d to R_2^d , reducing the equilibrium federal funds rate from i_{ff}^1 to i_{ff}^2 .
 - (e) has no effect on the demand for or supply of reserves.

Answer: C

Question Status: New

- 45) In Figure 17-1, a decrease in reserve requirements
- (a) increases the supply of reserves from R_1^s to R_2^s , reducing the equilibrium federal funds rate from i_{ff}^1 to i_{ff}^2 .
 - (b) reduces the supply of reserves from R_2^s to R_1^s , increasing the equilibrium federal funds rate from i_{ff}^2 to i_{ff}^1 .
 - (c) increases the demand for reserves from R_2^d to R_1^d , increasing the equilibrium federal funds rate from i_{ff}^2 to i_{ff}^1 .
 - (d) reduces the demand for of reserves from R_1^d to R_2^d , reducing the equilibrium federal funds rate from i_{ff}^1 to i_{ff}^2 .
 - (e) has no effect on the demand for or supply of reserves.

Answer: D

Question Status: New

- 46) On May 16, 2000, the Fed raised the discount rate, shifting the _____ curve for reserves to the _____, causing the federal funds rate to _____.
- (a) supply; right; fall
 - (b) supply; right; rise
 - (c) supply; left; rise
 - (d) demand; right; fall
 - (e) demand; left; rise

Answer: C

Question Status: Study Guide

- 47) In the market for reserves, an increase in the reserve requirement shifts the demand curve to the
- (a) left, lowering the federal funds interest rate.
 - (b) right, lowering the federal funds interest rate.
 - (c) right, raising the federal funds interest rate.
 - (d) left, raising the federal funds interest rate.

Answer: C

Question Status: Previous Edition

- 48) In the market for reserves, a _____ in the reserve requirement shifts the demand curve to the _____, raising the federal funds interest rate.
- (a) rise; left
 - (b) rise; right
 - (c) decline; right
 - (d) decline; left

Answer: B

Question Status: Previous Edition

- 49) In the market for reserves, a _____ in the reserve requirement shifts the demand curve to the right, _____ the federal funds interest rate.
- (a) rise; lowering
 - (b) decline; raising
 - (c) decline; lowering
 - (d) rise; raising

Answer: D

Question Status: Previous Edition

- 50) In the market for reserves, an increase in the reserve requirement shifts the demand curve to the
- (a) left and causes the federal funds interest rate to rise.
 - (b) right and causes the federal funds interest rate to rise.
 - (c) right and causes the federal funds interest rate to fall.
 - (d) left and causes the federal funds interest rate to fall.

Answer: B

Question Status: Previous Edition

- 51) In the market for reserves, an increase in the reserve requirement shifts the demand curve to the _____ and causes the federal funds interest rate to _____.
- (a) left; fall
 - (b) right; fall
 - (c) right; rise
 - (d) left; rise

Answer: C

Question Status: Previous Edition

52) In the market for reserves, an increase in the reserve requirement shifts the _____ curve to the _____ and causes the federal funds interest rate to rise.

- (a) demand; left
- (b) demand; right
- (c) supply; right
- (d) supply; left

Answer: B

Question Status: Previous Edition

53) In the market for reserves, a _____ in the reserve requirement shifts the demand curve to the _____, lowering the federal funds interest rate.

- (a) rise; left
- (b) rise; right
- (c) decline; right
- (d) decline; left

Answer: D

Question Status: Previous Edition

54) In the market for reserves, a _____ in the reserve requirement shifts the demand curve to the left, _____ the federal funds interest rate.

- (a) rise; lowering
- (b) decline; raising
- (c) decline; lowering
- (d) rise; raising

Answer: C

Question Status: Previous Edition

55) In the market for reserves, a decline in the reserve requirement shifts the demand curve to the

- (a) left, lowering the federal funds interest rate.
- (b) right, lowering the federal funds interest rate.
- (c) right, raising the federal funds interest rate.
- (d) left, raising the federal funds interest rate.

Answer: A

Question Status: Previous Edition

56) In the market for reserves, a decline in the reserve requirement shifts the demand curve to the

- (a) left and causes the federal funds interest rate to rise.
- (b) right and causes the federal funds interest rate to rise.
- (c) right and causes the federal funds interest rate to fall.
- (d) left and causes the federal funds interest rate to fall.

Answer: D

Question Status: Previous Edition

- 57) In the market for reserves, a decline in the reserve requirement shifts the _____ curve to the _____ and causes the federal funds interest rate to fall.
- (a) demand; left
 - (b) demand; right
 - (c) supply; right
 - (d) supply; left
- Answer: A
Question Status: Previous Edition
- 58) In the market for reserves, a decline in the reserve requirement shifts the demand curve to the _____ and causes the federal funds interest rate to _____.
- (a) left; fall
 - (b) right; fall
 - (c) right; rise
 - (d) left; rise
- Answer: A
Question Status: Previous Edition
- 59) _____ is the most important monetary policy tool because it is the primary determinant of changes in the _____, the main source of fluctuations in the money supply.
- (a) Open market operations; monetary base
 - (b) Open market operations; money multiplier
 - (c) Changes in reserve requirements; monetary base
 - (d) Changes in reserve requirements; money multiplier
- Answer: A
Question Status: Previous Edition
- 60) _____ is the most important monetary policy tool because it is the primary determinant of changes in _____, the main source of fluctuations in the money supply.
- (a) Open market operations; reserves and the monetary base
 - (b) Open market operations; the money multiplier
 - (c) Changes in reserve requirements; reserves and the monetary base
 - (d) Changes in reserve requirements; the money multiplier
- Answer: A
Question Status: Previous Edition
- 61) _____ is the most important monetary policy tool because it is the primary determinant of changes in reserves and the _____, the main source of fluctuations in the money supply.
- (a) Open market operations; monetary base
 - (b) Open market operations; money multiplier
 - (c) Changes in reserve requirements; monetary base
 - (d) Changes in reserve requirements; money multiplier
- Answer: A
Question Status: Previous Edition

- 62) Open market purchases raise the _____ thereby raising the _____.
- (a) money multiplier; money supply
 - (b) money multiplier; monetary base
 - (c) monetary base; money supply
 - (d) monetary base; money multiplier

Answer: C

Question Status: Previous Edition

- 63) Open market purchases _____ reserves and the monetary base thereby _____ the money supply.
- (a) raise; lowering
 - (b) raise; raising
 - (c) lower; lowering
 - (d) lower; raising

Answer: B

Question Status: Previous Edition

- 64) Open market purchases _____ reserves and the monetary base thereby _____ the _____.
- (a) raise; lowering; money supply
 - (b) raise; raising; money supply
 - (c) lower; lowering; money multiplier
 - (d) raise; raising; money multiplier
 - (e) lower; raising; money multiplier

Answer: B

Question Status: Previous Edition

- 65) Open market purchases _____ the _____ thereby _____ the money supply.
- (a) raise; money multiplier; lowering
 - (b) raise; money multiplier; raising
 - (c) lower; monetary base; lowering
 - (d) lower; monetary base; raising
 - (e) raise; monetary base; raising

Answer: E

Question Status: Previous Edition

- 66) Open market purchases _____ reserves and the monetary base thereby _____ the money supply.
- (a) raise; lowering
 - (b) raise; raising
 - (c) lower; lowering
 - (d) lower; raising

Answer: B

Question Status: Previous Edition

- 67) Open market purchases _____ reserves and the monetary base thereby _____ the _____.
- (a) raise; lowering; money supply
 - (b) raise; raising; money supply
 - (c) lower; lowering; money multiplier
 - (d) raise; raising; money multiplier
 - (e) lower; raising; money multiplier

Answer: B

Question Status: Previous Edition

- 68) Open market sales shrink _____ thereby lowering _____.
- (a) the money multiplier; the money supply
 - (b) the money multiplier; reserves and the monetary base
 - (c) reserves and the monetary base; the money supply
 - (d) the money base; the money multiplier

Answer: C

Question Status: Previous Edition

- 69) Open market sales _____ reserves and the monetary base thereby _____ the money supply.
- (a) raise; lowering
 - (b) raise; raising
 - (c) lower; lowering
 - (d) lower; raising

Answer: C

Question Status: Previous Edition

- 70) Open market sales _____ reserves thereby _____ the _____.
- (a) lower; lowering; money supply
 - (b) raise; raising; money supply
 - (c) lower; lowering; money multiplier
 - (d) raise; raising; money multiplier
 - (e) lower; raising; money multiplier

Answer: A

Question Status: Previous Edition

- 71) Open market purchases _____ the _____ thereby _____ the money supply.
- (a) raise; money multiplier; lowering
 - (b) raise; money multiplier; raising
 - (c) lower; monetary base; lowering
 - (d) lower; monetary base; raising
 - (e) raise; monetary base; raising

Answer: E

Question Status: Previous Edition

- 72) Open market sales _____ the _____ thereby _____ the money supply.
- (a) raise; money multiplier; lowering
 - (b) raise; money multiplier; raising
 - (c) lower; monetary base; lowering
 - (d) lower; monetary base; raising
 - (e) raise; monetary base; raising

Answer: C

Question Status: Previous Edition

- 73) Open market sales shrink the _____ thereby lowering the _____.
- (a) money multiplier; money supply
 - (b) money multiplier; monetary base
 - (c) monetary base; money supply
 - (d) money base; money multiplier

Answer: C

Question Status: Previous Edition

- 74) Open market sales _____ reserves and the monetary base thereby _____ the money supply.
- (a) raise; lowering
 - (b) raise; raising
 - (c) lower; lowering
 - (d) lower; raising

Answer: C

Question Status: Previous Edition

- 75) Open market sales _____ reserves and the monetary base thereby _____ the _____.
- (a) lower; lowering; money supply
 - (b) raise; raising; money supply
 - (c) lower; lowering; money multiplier
 - (d) raise; raising; money multiplier
 - (e) lower; raising; money multiplier

Answer: A

Question Status: Previous Edition

- 76) Open market sales _____ the _____ thereby _____ the money supply.
- (a) raise; money multiplier; lowering
 - (b) raise; money multiplier; raising
 - (c) lower; monetary base; lowering
 - (d) lower; monetary base; raising
 - (e) raise; monetary base; raising

Answer: C

Question Status: Previous Edition

- 77) The two types of open market operations are
- (a) offensive and defensive.
 - (b) dynamic and reactionary.
 - (c) active and passive.
 - (d) dynamic and defensive.
 - (e) positive and negative.
- Answer: D
Question Status: Study Guide
- 78) There are two types of open market operations: _____ open market operations are intended to change the level of reserves and the monetary base, and _____ open market operations are intended to offset movements in other factors that affect the monetary base.
- (a) defensive; dynamic
 - (b) defensive; static
 - (c) dynamic; defensive
 - (d) dynamic; static
- Answer: C
Question Status: Previous Edition
- 79) Open market operations intended to offset movements in noncontrollable factors (such as float) that affect reserves and the monetary base are called
- (a) defensive open market operations.
 - (b) dynamic open market operations.
 - (c) offensive open market operations.
 - (d) reactionary open market operations.
- Answer: A
Question Status: Previous Edition
- 80) When the Federal Reserve engages in a repurchase agreement to offset a withdrawal of Treasury funds from the Federal Reserve, the open market operation is said to be
- (a) defensive.
 - (b) offensive.
 - (c) dynamic.
 - (d) reactionary.
- Answer: A
Question Status: Previous Edition
- 81) The Fed conducts most of its open market operations in Treasury securities because the market for these securities
- (a) is the most liquid.
 - (b) has the largest trading volume.
 - (c) is monopolized by the Fed.
 - (d) involves all of the above.
 - (e) involves only (a) and (b) of the above.
- Answer: E
Question Status: Previous Edition

- 82) The Federal Open Market Committee makes the Fed's decisions on the purchase or sale of government securities, but these purchases or sales are executed by the Federal Reserve Bank of
- (a) Chicago.
 - (b) Boston.
 - (c) New York.
 - (d) San Francisco.

Answer: C

Question Status: Previous Edition

- 83) The actual execution of open market operations is done at
- (a) the Board of Governors in Washington, D.C.
 - (b) the Federal Reserve Bank of New York.
 - (c) the Federal Reserve Bank of Philadelphia.
 - (d) the Federal Reserve Bank of Boston.

Answer: B

Question Status: Previous Edition

- 84) If float is predicted to decrease because of unseasonably good weather, the manager of the trading desk at the Federal Reserve Bank of New York will likely conduct a _____ open market _____ of securities.
- (a) defensive; sale
 - (b) defensive; purchase
 - (c) dynamic; sale
 - (d) dynamic; purchase

Answer: B

Question Status: Previous Edition

- 85) When bad storms slow the check-clearing process, float tends to _____ causing the Fed to initiate defensive open market _____.
- (a) decrease; sales
 - (b) decrease; purchases
 - (c) increase; sales
 - (d) increase; purchases

Answer: C

Question Status: Previous Edition

- 86) When good weather speeds the check-clearing process, float tends to _____ causing the Fed to initiate defensive open market _____.
- (a) decrease; sales
 - (b) decrease; purchases
 - (c) increase; sales
 - (d) increase; purchases

Answer: B

Question Status: Previous Edition

- 87) When bad storms slow the check-clearing process, float tends to _____ causing the Fed to initiate _____ open market _____.
- (a) decrease; defensive; sales
 - (b) decrease; dynamic; purchases
 - (c) increase; defensive; sales
 - (d) increase; dynamic; purchases
- Answer: C
Question Status: Previous Edition
- 88) When good weather speeds the check-clearing process, float tends to _____ causing the Fed to initiate _____ open market _____.
- (a) decrease; defensive; sales
 - (b) decrease; dynamic; sales
 - (c) increase; defensive; purchases
 - (d) increase; dynamic; purchases
- Answer: C
Question Status: Previous Edition
- 89) If float is predicted to increase because of bad weather, the manager of the trading desk at the New York Fed bank will likely conduct _____ open market operations to _____ reserves.
- (a) defensive; inject
 - (b) defensive; drain
 - (c) dynamic; inject
 - (d) dynamic; drain
- Answer: B
Question Status: Previous Edition
- 90) If float is predicted to decrease because of good weather, the manager of the trading desk at the New York Fed bank will likely conduct _____ open market operations to _____ reserves.
- (a) defensive; inject
 - (b) defensive; drain
 - (c) dynamic; inject
 - (d) dynamic; drain
- Answer: A
Question Status: Previous Edition
- 91) If float is predicted to _____ because of bad weather, the manager of the trading desk at the New York Fed bank will likely conduct _____ open market operations to _____ reserves.
- (a) decrease; defensive; inject
 - (b) increase; defensive; drain
 - (c) decrease; dynamic; inject
 - (d) increase; dynamic; drain
- Answer: B
Question Status: Previous Edition

- 92) If float is predicted to _____ because of good weather, the manager of the trading desk at the New York Fed bank will likely conduct _____ open market operations to _____ reserves.
- (a) decrease; defensive; inject
 - (b) increase; defensive; drain
 - (c) decrease; dynamic; inject
 - (d) increase; dynamic; drain

Answer: A

Question Status: Previous Edition

- 93) If Treasury deposits at the Fed are predicted to increase, the manager of the trading desk at the New York Fed bank will likely conduct _____ open market operations to _____ reserves.
- (a) defensive; inject
 - (b) defensive; drain
 - (c) dynamic; inject
 - (d) dynamic; drain

Answer: A

Question Status: Previous Edition

- 94) If Treasury deposits at the Fed are predicted to _____, the manager of the trading desk at the New York Fed bank will likely conduct _____ open market operations to _____ reserves.
- (a) increase; defensive; inject
 - (b) decrease; defensive; drain
 - (c) increase; dynamic; inject
 - (d) decrease; dynamic; drain

Answer: A

Question Status: Previous Edition

- 95) If Treasury deposits at the Fed are predicted to fall, the manager of the trading desk at the New York Fed bank will likely conduct _____ open market operations to _____ reserves.
- (a) defensive; inject
 - (b) defensive; drain
 - (c) dynamic; inject
 - (d) dynamic; drain

Answer: B

Question Status: Previous Edition

- 96) If Treasury deposits at the Fed are predicted to _____, the manager of the trading desk at the New York Fed bank will likely conduct _____ open market operations to _____ reserves.
- (a) rise; defensive; drain
 - (b) fall; defensive; drain
 - (c) rise; dynamic; inject
 - (d) fall; dynamic; drain

Answer: B

Question Status: Revised

- 97) If Treasury deposits at the Fed are predicted to _____, a _____ open market _____ would be needed to offset the expected increase in reserves and the monetary base.
- (a) rise; dynamic; purchase
 - (b) fall; dynamic; sale
 - (c) rise; defensive; sale
 - (d) fall; defensive; sale

Answer: D

Question Status: Revised

- 98) If Treasury deposits at the Fed are predicted to _____, a _____ open market _____ would be needed to offset the expected decrease in reserves and the monetary base.
- (a) rise; dynamic; purchase
 - (b) fall; dynamic; sale
 - (c) rise; defensive; purchase
 - (d) fall; defensive; purchase
 - (e) rise; defensive; sale

Answer: C

Question Status: Study Guide

- 99) If Treasury deposits at the Fed are predicted to temporarily fall, then a _____ open market _____ would be needed to offset the expected increase in reserves and the monetary base.
- (a) defensive; sale
 - (b) defensive; purchase
 - (c) dynamic; sale
 - (d) dynamic; purchase

Answer: A

Question Status: Revised

- 100) If Treasury deposits at the Fed are predicted to temporarily rise, then a _____ open market _____ would be needed to offset the expected decrease in reserves and the monetary base.
- (a) defensive; sale
 - (b) defensive; purchase
 - (c) dynamic; sale
 - (d) dynamic; purchase

Answer: B

Question Status: Revised

- 101) If Treasury deposits at the Fed are predicted to temporarily fall, then a _____ open market _____ would be needed to offset the expected _____ in reserves and the monetary base.
- (a) defensive; sale; decrease
 - (b) defensive; purchase; decrease
 - (c) defensive; sale; increase
 - (d) dynamic; purchase; decrease
 - (e) dynamic; sale; increase

Answer: C

Question Status: Revised

- 102) If Treasury deposits at the Fed are predicted to temporarily rise, then a _____ open market _____ would be needed to offset the expected _____ in reserves and the monetary base.
- (a) defensive; sale; decrease
 - (b) defensive; purchase; decrease
 - (c) dynamic; sale; decrease
 - (d) dynamic; purchase; increase
 - (e) dynamic; sale; increase

Answer: B

Question Status: Revised

- 103) If the Fed expects currency holdings to rise, it conducts open market _____ to offset the expected _____ in reserves.
- (a) purchases; increase
 - (b) purchases; decrease
 - (c) sales; increase
 - (d) sales; decrease
 - (e) repurchase agreement; increase

Answer: B

Question Status: New

- 104) The Fed offsets a decrease in currency holdings by
- (a) making open market purchases.
 - (b) raising reserve requirements.
 - (c) raising the discount rate.
 - (d) lowering margin requirements.
 - (e) conducting open market sales.

Answer: E

Question Status: New

- 105) If the banking system has a large amount of reserves, many banks will have excess reserves to lend and the federal funds rate will probably _____; if the level of reserves is low, few banks will have excess reserves to lend and the federal funds rate will probably _____.
- (a) fall; fall
 - (b) fall; rise
 - (c) rise; fall
 - (d) rise; rise

Answer: B

Question Status: Previous Edition

- 106) The Federal Reserve will engage in a repurchase agreement when it wants to _____ reserves _____ in the banking system.
- (a) increase; permanently
 - (b) increase; temporarily
 - (c) decrease; temporarily
 - (d) decrease; permanently

Answer: B

Question Status: Previous Edition

- 107) If the Fed wants to temporarily inject reserves into the banking system, it will engage in
- (a) a repurchase agreement.
 - (b) a matched sale-purchase transaction.
 - (c) reverse repurchase agreement.
 - (d) an open market sale.
 - (e) none of the above.

Answer: A

Question Status: Study Guide

- 108) The Fed can offset the effects of an increase in float by engaging in
- (a) a repurchase agreement.
 - (b) a matched sale-purchase transaction.
 - (c) an interest rate swap.
 - (d) an open market purchase.
 - (e) none of the above.

Answer: B

Question Status: Study Guide

- 109) If the Fed wants to temporarily drain reserves from the banking system, it will engage in
- (a) a repurchase agreement.
 - (b) a matched sale-purchase transaction.
 - (c) a “pump” agreement.
 - (d) none of the above.

Answer: B

Question Status: Previous Edition

- 110) The Federal Reserve will engage in a matched sale-purchase transaction when it wants to _____ reserves _____ in the banking system.
- (a) increase; permanently
 - (b) increase; temporarily
 - (c) decrease; temporarily
 - (d) decrease; permanently

Answer: C

Question Status: Previous Edition

- 111) When the Fed wants to conduct a _____ open market _____, it engages in a _____
- (a) permanent; purchase; reverse repo
 - (b) permanent; purchase; repurchase agreement
 - (c) temporary; sale; reverse repo
 - (d) temporary; sale; repurchase agreement
 - (e) temporary; purchase; reverse repo

Answer: C

Question Status: Study Guide

- 112) Open market operations as a monetary policy tool have the advantages that
- (a) they occur at the initiative of the Fed.
 - (b) they are flexible and precise.
 - (c) they are easily reversed if mistakes are made.
 - (d) all of the above.

Answer: D

Question Status: Previous Edition

- 113) Open market operations as a monetary policy tool have the advantages that
- (a) they are flexible and precise.
 - (b) they are easily reversed if mistakes are made.
 - (c) they can be implemented quickly without administrative delays.
 - (d) all of the above.
 - (e) only (a) and (b) of the above.

Answer: D

Question Status: Previous Edition

- 114) Open market operations as a monetary policy tool have the advantages that
- (a) they are flexible and precise.
 - (b) they can be implemented quickly without administrative delays.
 - (c) they are not easily reversed.
 - (d) all of the above.
 - (e) only (a) and (b) of the above.

Answer: E

Question Status: Previous Edition

- 115) Discount policy affects the money supply by affecting the volume of _____ and the _____.
- (a) excess reserves; monetary base
 - (b) discount loans; monetary base
 - (c) excess reserves; money multiplier
 - (d) discount loans; money multiplier

Answer: B

Question Status: Previous Edition

- 116) Discount policy affects the money supply by affecting the volume of _____ and _____.
- (a) excess reserves; reserves and the monetary base
 - (b) discount loans; reserves and the monetary base
 - (c) excess reserves; the money multiplier
 - (d) discount loans; the money multiplier

Answer: B

Question Status: Previous Edition

- 117) The discount rate is
- (a) the interest rate the Fed charges on loans to banks.
 - (b) the price the Fed pays for government securities.
 - (c) the interest rate that banks charge their most preferred customers.
 - (d) the price banks pay the Fed for government securities.
- Answer: A
Question Status: Previous Edition
- 118) The most common type of discount loan that the Fed extends to banks is called
- (a) seasonal credit.
 - (b) extended credit.
 - (c) adjustment credit.
 - (d) installment credit.
- Answer: C
Question Status: Previous Edition
- 119) The most common type of discount loan, _____ credit loans, are intended to help banks with short-term liquidity problems that often result from temporary deposit outflows.
- (a) extended
 - (b) adjustment
 - (c) temporary
 - (d) seasonal
- Answer: B
Question Status: Previous Edition
- 120) The most common type of discount loan, _____ credit loans, are intended to help banks with _____-term liquidity problems that often result from _____ deposit outflows.
- (a) extended; short; temporary
 - (b) adjustment; short; temporary
 - (c) extended; long; permanent
 - (d) seasonal; long; permanent
- Answer: B
Question Status: Previous Edition
- 121) Adjustment credit
- (a) can be obtained with a telephone call.
 - (b) is expected to be repaid fairly quickly.
 - (c) is the most common type of discount loan.
 - (d) is all of the above.
 - (e) is only (a) and (b) of the above.
- Answer: D
Question Status: Previous Edition

122) Adjustment credit

- (a) must be obtained with a written request.
- (b) is expected to be repaid fairly slowly.
- (c) is the most common type of discount loan.
- (d) is only (a) and (b) of the above.

Answer: C

Question Status: Previous Edition

123) Adjustment credit

- (a) can be obtained with a telephone call.
- (b) is expected to be repaid fairly quickly.
- (c) is the least common type of discount loan.
- (d) is all of the above.
- (e) is only (a) and (b) of the above.

Answer: E

Question Status: Previous Edition

124) Seasonal credit

- (a) can be obtained with a telephone call.
- (b) is expected to be repaid fairly quickly.
- (c) is given to a limited number of banks in vacation and agricultural areas.
- (d) is all of the above.

Answer: C

Question Status: Previous Edition

125) Extended credit

- (a) cannot be obtained with a telephone call.
- (b) is expected to be repaid fairly quickly.
- (c) is the most common type of discount loan.
- (d) is all of the above.

Answer: A

Question Status: Previous Edition

126) Extended credit is

- (a) given to banks that have experienced severe liquidity problems.
- (b) expected to be repaid fairly quickly.
- (c) the most common type of discount loan.
- (d) only (a) and (b) of the above.

Answer: A

Question Status: Previous Edition

- 127) Extended credit is
- (a) given to banks that have experienced severe liquidity problems.
 - (b) granted to banks only after they have submitted a plan for restoring their liquidity.
 - (c) the most common type of discount loan.
 - (d) all of the above.
 - (e) only (a) and (b) of the above.

Answer: E

Question Status: Previous Edition

- 128) When the Fed acts as a lender or last resort, the type of loan it extends is
- (a) adjustment credit.
 - (b) seasonal credit.
 - (c) extended credit.
 - (d) installment credit.
 - (e) emergency credit.

Answer: C

Question Status: Study Guide

- 129) Banks experiencing chronic deposit outflows borrow from the Fed by obtaining _____ credit discount loans.
- (a) adjustment
 - (b) seasonal
 - (c) extended
 - (d) emergency
 - (e) installment

Answer: C

Question Status: Study Guide

- 130) The Fed's discount loans are of three types: _____ is the most common category; _____ is given to a limited number of banks in vacation and agricultural areas; _____ is given to banks that have experienced severe liquidity problems.
- (a) seasonal credit; extended credit; adjustment credit
 - (b) extended credit; seasonal credit; adjustment credit
 - (c) adjustment credit; seasonal credit; extended credit
 - (d) seasonal credit; adjustment credit; extended credit

Answer: C

Question Status: Previous Edition

- 131) The discount rate is frequently kept below the federal funds rate, causing the Fed to
- (a) ration discount loans on a first-come, first-served basis.
 - (b) limit how often a bank can come to the discount window.
 - (c) refuse credit to banks that are not members of the Federal Reserve System.
 - (d) raise reserve requirements for banks that borrow frequently.
 - (e) do both (b) and (d) of the above.

Answer: B

Question Status: Study Guide

- 132) Which of the following are costs that banks face when borrowing through the Fed's discount window?
- (a) The interest cost represented by the discount rate
 - (b) The interest cost represented by the federal funds rate
 - (c) The cost of complying with Fed investigations of the soundness of the bank
 - (d) Both (a) and (c) of the above
 - (e) Both (b) and (c) of the above
- Answer: D
Question Status: Previous Edition
- 133) A bank faces three costs when it borrows from the discount window:
- (a) the interest cost; the cost of complying with Fed investigations of the soundness of the bank; the cost of being turned down for a discount loan in the future.
 - (b) the interest cost; the administrative cost to the bank; the cost of being turned down for a discount loan in the future.
 - (c) the interest cost; the origination fee charged by the Fed; the administrative cost to the bank.
 - (d) only (a) and (b) of the above.
- Answer: A
Question Status: Previous Edition
- 134) The Fed's ability to discourage banks from making too many trips to the discount window is frequently referred to as
- (a) "arm twisting."
 - (b) the "red dog" rule.
 - (c) "discount blitzing!"
 - (d) "moral suasion."
- Answer: D
Question Status: Previous Edition
- 135) The Fed attempts to control the quantity of discount loans through
- (a) reserve requirements.
 - (b) open market operations.
 - (c) moral suasion.
 - (d) all of the above.
 - (e) both (a) and (b) of the above.
- Answer: C
Question Status: New
- 136) When the Federal Reserve was created, its most important role was intended to be as
- (a) a storage facility for the nation's gold.
 - (b) a lender-of-last-resort.
 - (c) a regulator of bank holding companies.
 - (d) none of the above.
- Answer: B
Question Status: Previous Edition

- 137) At its inception, the Federal Reserve was intended to be
- (a) the Treasury's banker.
 - (b) the issuer of government debt.
 - (c) a lender-of-last-resort.
 - (d) a regulator of bank holding companies.

Answer: C

Question Status: Previous Edition

- 138) The major loan extended to Continental Illinois in 1984 is an example of which type of discount loan?
- (a) Seasonal credit
 - (b) Extended credit
 - (c) Adjustment credit
 - (d) Installment credit

Answer: B

Question Status: Previous Edition

- 139) The Fed's lender-of-last-resort function
- (a) is no longer necessary due to FDIC insurance.
 - (b) has proven to be ineffective.
 - (c) is needed to prevent runs by large-denomination depositors.
 - (d) all of the above.
 - (e) both (a) and (b) of the above.

Answer: C

Question Status: New

- 140) Much of the credit for prevention of a financial market meltdown after "Black Monday" (October 17, 1987) must be given to the Federal Reserve System and its chairman
- (a) Paul Volker.
 - (b) Alan Blinder.
 - (c) Arthur Burns.
 - (d) Alan Greenspan.

Answer: D

Question Status: Previous Edition

- 141) A financial panic was averted in October 1987 following "Black Monday" when the Fed announced that
- (a) it was lowering the discount rate on extended credit.
 - (b) it would provide discount loans to any bank that would make loans to the security industry.
 - (c) it stood ready to purchase common stocks to prevent a further slide in stock prices.
 - (d) all of the above.

Answer: B

Question Status: Previous Edition

- 142) The Fed's lender-of-last-resort function
- (a) has proven to be ineffective.
 - (b) cannot prevent runs by large depositors.
 - (c) is no longer necessary due to FDIC insurance.
 - (d) creates a moral hazard problem.
 - (e) all of the above.

Answer: D

Question Status: New

- 143) The Fed effectively served as a lender-of-last-resort
- (a) during the Great Depression.
 - (b) after the "Black Monday" stock market crash.
 - (c) after the September 11 terrorist attacks.
 - (d) all of the above.
 - (e) both (b) and (c) of the above.

Answer: E

Question Status: New

- 144) Discount policy
- (a) can create confusion about the Fed's intentions.
 - (b) can be important in preventing financial panics.
 - (c) is the Fed's preferred method for changing the level of reserves in the banking system.
 - (d) all of the above.
 - (e) only (a) and (b) of the above.

Answer: E

Question Status: Revised

- 145) Discount policy
- (a) can create confusion about the Fed's intentions.
 - (b) is no longer important in preventing financial panics since the creation of the FDIC.
 - (c) is the Fed's preferred method for changing the level of reserves in the banking system.
 - (d) only (a) and (b) of the above.

Answer: A

Question Status: Revised

- 146) The most important advantage of discount policy is that the Fed can use it to
- (a) precisely control the monetary base.
 - (b) perform its role as lender of last resort.
 - (c) control the money supply.
 - (d) punish banks that have deficient reserves.

Answer: B

Question Status: Revised

147) Disadvantages of discount policy include

- (a) the confusion concerning the Fed's intentions about future monetary policy because of the uncertainty about what a change in the discount rate is intended to signal.
- (b) large fluctuations in the money multiplier from even small changes in the discount rate.
- (c) its powerful effect, when compared to open market operations, on reserves and the monetary base.
- (d) only (a) and (b) of the above.

Answer: A

Question Status: Previous Edition

148) Disadvantages of discount policy include

- (a) the confusion concerning the Fed's intentions about future monetary policy because of the uncertainty about what a change in the discount rate is intended to signal.
- (b) large fluctuations in the volume of discount loans caused by infrequent adjustments in the discount rate to market interest rates.
- (c) its relative imprecision, when compared to open market operations, over control of the money supply.
- (d) all of the above.
- (e) only (a) and (b) of the above.

Answer: D

Question Status: Previous Edition

149) An increase in reserve requirements reduces the money supply since it causes

- (a) reserves to fall.
- (b) reserves and the monetary base to fall.
- (c) the money multiplier to fall.
- (d) both (a) and (b) of the above.

Answer: C

Question Status: Previous Edition

150) An increase in _____ reduces the money supply since it causes the _____ to fall.

- (a) reserve requirements; monetary base
- (b) reserve requirements; money multiplier
- (c) margin requirements; monetary base
- (d) margin requirements; money multiplier

Answer: B

Question Status: Previous Edition

151) A _____ in _____ reduces the money supply since it causes the _____ to fall.

- (a) rise; reserve requirements; monetary base
- (b) rise; reserve requirements; money multiplier
- (c) rise; margin requirements; monetary base
- (d) decrease; margin requirements; money multiplier
- (e) decrease; reserve requirements; money multiplier

Answer: B

Question Status: Previous Edition

- 152) A _____ in reserve requirements _____ the money supply since it causes the money multiplier to _____.
- (a) decrease; increases; fall
 - (b) decrease; decreases; fall
 - (c) rise; increases; rise
 - (d) rise; decreases; rise
 - (e) rise; decreases; fall

Answer: E

Question Status: Previous Edition

- 153) A decrease in reserve requirements increases the money supply since it causes
- (a) reserves to rise.
 - (b) the monetary base to rise.
 - (c) the money multiplier to rise.
 - (d) both (a) and (b) of the above.

Answer: C

Question Status: Previous Edition

- 154) A decrease in _____ increases the money supply since it causes the _____ to rise.
- (a) reserve requirements; monetary base
 - (b) reserve requirements; money multiplier
 - (c) margin requirements; monetary base
 - (d) margin requirements; money multiplier

Answer: B

Question Status: Previous Edition

- 155) A _____ in _____ increases the money supply since it causes the _____ to rise.
- (a) decrease; reserve requirements; monetary base
 - (b) rise; reserve requirements; money multiplier
 - (c) rise; reserve requirements; monetary base
 - (d) decrease; reserve requirements; money multiplier
 - (e) rise; margin requirements; money multiplier

Answer: D

Question Status: Previous Edition

- 156) A _____ in reserve requirements _____ the money supply since it causes the money multiplier to _____.
- (a) decrease; increases; rise
 - (b) decrease; decreases; fall
 - (c) rise; increases; rise
 - (d) rise; decrease; rise

Answer: A

Question Status: Previous Edition

- 157) The main advantage of using reserve requirements to control the money supply and interest rates is
- (a) that they affect all banks equally and have a powerful effect on the money supply.
 - (b) that they eliminate the need for the Fed to use dynamic open market operations.
 - (c) that raising them can reduce liquidity problems for banks with low excess reserves.
 - (d) none of the above.

Answer: A

Question Status: Previous Edition

- 158) Disadvantages of using reserve requirements to control the money supply and interest rates include
- (a) their overly-powerful impact on the money supply.
 - (b) creating potential liquidity problems for banks with low excess reserves.
 - (c) both (a) and (b) of the above.
 - (d) neither (a) nor (b) of the above.

Answer: C

Question Status: Previous Edition

- 159) Disadvantages of using reserve requirements to control the money supply and interest rates include
- (a) their overly-powerful impact on the money supply.
 - (b) creating potential lending problems for banks with high levels of excess reserves.
 - (c) their overly-powerful impact on reserves and the monetary base.
 - (d) all of the above.

Answer: A

Question Status: Previous Edition

- 160) The Fed is reluctant to use reserve requirements to control the money supply and interest rates because
- (a) of their overly-powerful impact on the money supply.
 - (b) they have the potential to create liquidity problems for banks with low excess reserves.
 - (c) frequent changes in reserve requirements complicate liquidity management for banks.
 - (d) of all of the above.
 - (e) of only (a) and (b) of the above.

Answer: D

Question Status: Previous Edition

- 161) The Fed is reluctant to use reserve requirements to control the money supply and interest rates because
- (a) frequent changes in reserve requirements complicate liquidity management for banks.
 - (b) they have the potential to create liquidity problems for banks with low excess reserves.
 - (c) of their weak impact on the money supply.
 - (d) of all of the above.
 - (e) of only (a) and (b) of the above.

Answer: E

Question Status: Previous Edition

- 162) The Fed is reluctant to use reserve requirements to control the money supply and interest rates because
- (a) they have the potential to create lending problems for banks with high excess reserves.
 - (b) frequent changes in reserve requirements complicate liquidity management for banks.
 - (c) of their weak impact on the money supply.
 - (d) of only (a) and (b) of the above.

Answer: B

Question Status: Previous Edition

- 163) Changes in the reserve requirement are an infrequently used monetary policy tool since
- (a) this tool is too blunt.
 - (b) this tool is too weak.
 - (c) banks find it costly to adjust to such changes.
 - (d) both (a) and (c) of the above are true.

Answer: D

Question Status: Previous Edition

- 164) The global reduction in reserve requirements
- (a) increases bank costs.
 - (b) decreases bank profits.
 - (c) increases bank competitiveness.
 - (d) increases moral hazard.
 - (e) all of the above.

Answer: C

Question Status: New

- 165) In a lombard facility
- (a) a central bank restricts bank borrowing by aggressively changing its lending rate.
 - (b) a central bank restricts bank borrowing through moral suasion.
 - (c) a central bank does not limit borrowing.
 - (d) a central bank does not make loans to banks.
 - (e) a central bank makes loans to banks at a zero interest rate.

Answer: C

Question Status: New

- 166) If the overnight interest rate rises above the lombard rate
- (a) banks stop borrowing from the central bank.
 - (b) the central bank supplies any amount that banks want.
 - (c) the central bank refuses to lend.
 - (d) banks increase their deposits at the central bank.
 - (e) the overnight interest rate cannot be controlled.

Answer: B

Question Status: New

167) If the overnight interest rate falls below the rate paid on reserves

- (a) banks stop lending to the central bank.
- (b) the central bank supplies any amount that banks want.
- (c) the central bank refuses to lend.
- (d) banks increase their deposits at the central bank.
- (e) the overnight interest rate cannot be controlled.

Answer: D

Question Status: New

168) If the Fed wants to inject reserves into the banking system, it will usually

- (a) purchase government securities.
- (b) raise the discount rate.
- (c) sell government securities.
- (d) lower reserve requirements.
- (e) do either (a) or (b) of the above.

Answer: A

Question Status: Study Guide

169) If the Fed wants to drain reserves from the banking system, it will

- (a) purchase government securities.
- (b) lower the discount rate.
- (c) sell government securities.
- (d) raise reserve requirements.

Answer: C

Question Status: Previous Edition

170) The Fed's most commonly used means of changing the money supply is

- (a) changing reserve requirements.
- (b) changing the discount rate.
- (c) open market operations.
- (d) changes in the Regulation Q ceiling rate.

Answer: C

Question Status: Previous Edition

171) The Fed's least commonly used means of changing the money supply is

- (a) changing reserve requirements.
- (b) changing the discount rate.
- (c) open market sales.
- (d) open market purchases.

Answer: A

Question Status: Previous Edition

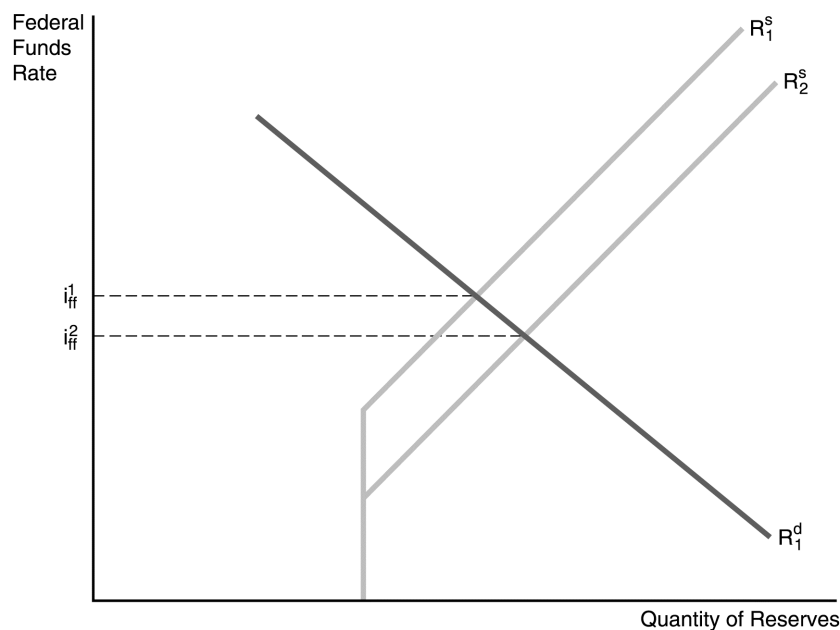
■ Essay Questions

- 1) Explain the Fed’s three tools of monetary policy and how each is used to change the money supply. Does each tool affect the monetary base or the money multiplier?

Answer: The three tools are open market operations, the purchase and sale of government securities; discount policy, controlling the price and quantity of discount loans to banks; and reserve requirements, setting the percentage of deposits that banks must hold in reserve. Open market operations and the discount rate affect the monetary base, and reserve requirements affect the money multiplier.

- 2) Demonstrate graphically and explain how a cut in the discount rate affects the supply or demand for reserves, and the federal funds rate.

Answer: As see in the graph below, a cut in the discount rate shifts the supply curve to the right, lowering the vertical section, and decreasing the equilibrium federal funds rate. The supply curve increases from R_1^s to R_2^s , lowering the equilibrium rate from i_{ff}^1 to i_{ff}^2 .



- 3) Explain dynamic and defensive open market operations. What is the purpose of each type? Describe two situations when defensive open market operations are used. How are defensive open market operations typically conducted?

Answer: Dynamic OMOs are used to permanently change the monetary base and money supply. Defensive operations are used to offset temporary changes in the monetary base and or money supply. Defensive operations are used to offset float, shifts in Treasury balances into or out of the Fed, and temporary changes in currency. Defensive purchases are typically conducted by using repurchase agreements, while reverse repos or matched sale-purchase transactions are used to conduct defensive open market sales.