

ECN 212

~~Homework 2~~

1. Which of the following policies would have the greatest impact on equilibrium national income?
 - a. A \$100 increase in government purchases
 - b. A \$100 decrease in net taxes
 - c. A \$100 increase in government purchases coupled with a \$100 decrease in net taxes
 - d. A \$100 increase in government purchases coupled with a \$100 increase in net taxes
 - e. Both a and b above, since they have the same impact on equilibrium national income

2. If the MPC is $\frac{2}{3}$ and tax collections decrease by \$3 billion, equilibrium national income will
 - a. Decrease by \$2 billion
 - b. Decrease by \$6 billion
 - c. Decrease by \$9 billion
 - d. Increase by \$6 billion
 - e. Increase by \$9 billion

Handwritten notes for Q2:
 $Y = MPC + \frac{2}{3}(Y)$
 $MPC = \frac{\Delta C}{\Delta Y}$
 $\frac{2}{3} = \frac{\Delta C}{3}$
 $\frac{2}{3} \times 3 = \frac{\Delta C}{1}$
 $\Delta C = 2$
 $\frac{2}{3} \times 3 = 2$

3. Central Bank purchases of securities
 - a. Cause bank reserves to increase
 - b. Always decrease the money supply
 - c. Generally decrease the money supply
 - d. Are designed to increase trading on the stock exchange
 - e. None of the above

4. The discount rate is the rate of interest (Bank rate, discount rate)
 - a. Banks charge on loans for stock purchases
 - b. Banks charge to their preferred customers
 - c. The Central Bank pays when it borrows from the Treasury
 - d. Charged to banks when they borrow from the Central Bank
 - e. Charged to banks when they borrow the excess reserves of other banks

5. When people hold money in order to take advantage of a change in interest rates, they are said to have a
 - a. Supply of liquidity
 - b. Speculative supply for money
 - c. Speculative demand for money
 - d. Precautionary demand for money
 - e. Transactions demand for liquidity

6. The demand curve for money
- Is primarily determined by the Central Bank
 - Tends to be positively sloped, because of the speculative demand for money.
 - Typically arises because of transactions, precautionary, and speculative demand for money
 - All of the above
 - Shows the relationship between the quantity of money a person has and the value of his or her nonmonetary assets.
7. The transactions demand for money
- Determines the amount of cash in circulation
 - Would generally decrease with increases in wealth
 - Is likely to be affected by the level of national income
 - Arises because people want to be prepared for the unexpected
 - Enables people to take advantage of changes in the interest rate
8. Given an MPC of $4/5$ and an equal decrease in government purchases and net tax collection, a Keynesian would predict that there would be
- No change in equilibrium national income
 - An increase in equilibrium national income equal to the decrease in government purchases
 - A decrease in equilibrium national income equal to the decrease in government purchases
 - A decrease in equilibrium national income five times the change in government purchases
 - A decrease in equilibrium national income equal to the sum of the decrease in government purchases and tax collections
9. If the required reserve ratio were $12\frac{1}{2}\%$ the value of the monetary multiplier would be:
- 5
 - 6
 - 7
 - 8
10. The commercial banking system has excess reserves of \$700 and makes new loans of \$2100 and is just meeting its reserve requirements. The required reserve ratio is:
- 20%
 - 25%
 - 30%
 - $33\frac{1}{3}\%$

$$\frac{1}{0.25} \times 700 = 2800$$

$$700 + 2100$$

11. Which of the following is the most important control used by the Central Bank to regulate the money supply?
- Changing the reserve ratio
 - Open-market operations
 - Changing the discount rate
 - Changing the margin requirements

12. When cash is deposited in a demand-deposit account in a commercial bank there is:
- A decrease in the money supply
 - An increase in the money supply
 - No change in the composition of the money supply
 - A change in the composition of the money supply

$$M_1 = 1000 + 20000 + 50000 - 100 \rightarrow +100$$

13. A commercial bank has actual reserves of \$9,000 and deposit liabilities of \$30,000; and the required reserve ratio is 20%. The excess reserves of the bank are:
- \$3,000
 - \$6,000
 - \$7,500
 - \$9,000

$$\begin{array}{r} A \\ r: 9000 \\ \hline 30,000 \\ \hline 21,000 \end{array}$$

14. If the marginal propensity to consume is 0.67 and both taxes and government purchases of goods and services increase by \$25, real NNP will
- Fall by \$25
 - Rise by \$25
 - Fall by \$75
 - Rise by \$75

$$\Delta Y = \frac{1}{1 - MPC} \times \Delta G = \frac{1}{1 - 0.67} \times 25 = 75$$

15. Which of the following policies would decrease total expenditures the most?
- Increase taxes by \$5 billion
 - Reduce government purchases of goods and services by \$5 billion
 - Increase taxes and government expenditures by \$5 billion
 - Reduce both taxes and government purchases by \$5 billion

16. A commercial bank has deposit liabilities of \$100,000, reserves of \$37,000, and a required reserve ratio of 25%. The amount by which a *single commercial bank* and the amount by which the *banking system* can increase loans are, respectively:
- \$12,000 and \$48,000
 - \$17,000 and \$68,000
 - \$12,000 and \$60,000
 - \$17,000 and \$85,000

17. Checkable deposits are money because they are:
- Legal tender
 - Fiat money
 - A medium of exchange
 - Token money

18. If the government wishes to increase the level of GDP, it might
- a. Reduce taxes
 - b. Reduce its purchases of goods and services
 - c. Reduce transfer payments
 - d. Reduce the size of the budget deficit
19. The supply of money is determined by the Central Bank and does not change when the interest rate changes, so therefore the:
- a. Supply of money curve is downward sloping
 - b. Demand for money curve is downward sloping
 - c. Supply of money curve is upward sloping
 - d. Supply of money curve is vertical
20. Which one of the following points would be true?
- a. Bond prices and the interest rate are directly related.
 - b. A lower interest rate raises the opportunity cost of holding money
 - c. The supply of money is directly related to the interest rate
 - d. The total demand for money is inversely related to the interest rate

GOOD WORK 😊