

Name _____

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Econ 520 Spring 2011a

Final

1 hour, 48 minutes. **Closed book and notes. Graphing and alphanumeric calculators or computers may not be used, nor are cell phones allowed.** A non-graphing calculator may be used if desired, but is probably not necessary. Please cover your answers. Please bubble in **your name** on your answer sheet, plus the information requested in question **0** below. Social Security # is not necessary. There are **60 questions**, 4 points each, for 200 points. Record the best answer to each question in #2 pencil on your bubble sheet. Make sure you have all 60 questions.

When done, please place your **bubble sheet inside this question sheet** and return both to the proctor with your **photo ID**.

0. Under Special Code K, please bubble in the number 1.

1. During 2007-2009, US real GDP fell by a bigger percentage than in any recession since
 - a) The Great Depression of the 1930s
 - b) 1944-47
 - c) 1957-58
 - d) 1973-75
 - e) 1981-82

2. Holding constant the average length of time money is held between receipt and expenditure, a **decrease** in real transactions conducted with money will
 - a) increase real money demand
 - b) decrease real money demand
 - c) leave real money demand unchanged
 - d) increase real money demand under a commodity standard, but decrease it under a fiat money standard
 - e) decrease real money demand under a commodity standard, but increase it under a fiat money standard

3. Holding constant the volume of real transactions conducted with money, a **decrease** in the average length of time it is held between receipt and expenditure will (same key as previous question)

4. The value of fiat money is determined by
 - a) its redemption value in gold
 - b) its redemption value in silver
 - c) the prospect of future redemption in gold or silver
 - d) the ratio of its nominal supply to the demand for real money balances
 - e) None of the above; pure fiat money is always worthless.

5. From 1834 to 1933 the US mint price of gold was
 - a) \$1.293
 - b) \$20.67
 - c) \$35.00
 - d) \$129.37
 - e) \$1437.86

6. Suppose that a 30-year fixed-rate mortgage has a duration of 10 years. If yields to maturity **rise** by 1 percentage point (100 basis points), what is the approximate change in its present value?
 - a) Zero since its rate is fixed.
 - b) -1%
 - c) -3%
 - d) -10%
 - e) -30%

7. Real interest rates on US 1-year Treasury bills, as inferred from the Fisher Equation and assuming Adaptive Expectations, were 6% or higher during
 - a) the early 1960s
 - b) the late 1960s
 - c) the late 1970s
 - d) the early 1980s
 - e) the late 1990s

8. Income velocity is defined to be
 - a) nominal money balances divided by real income
 - b) nominal income divided by real money balances
 - c) nominal income divided by nominal money balances
 - d) nominal money balances divided by nominal income
 - e) real income divided by nominal money balances

9. Price ceilings caused Suppressed Inflation during
 - a) 1957-58
 - b) 1967-71
 - c) 1971-73
 - d) 1978-81
 - e) None of the above – price ceilings tend to cause Suppressed Deflation

10. Assuming **Adaptive Expectations** or its modern generalization, **Adaptive Learning**, a seigniorage target *above* the peak of the Long-Run Monetary Laffer Curve
- can never be attained; money would immediately lose all its value.
 - can be attained, but only with an inflation that accelerates without bound.
 - can be attained, but only with an immediate collapse of the price level to 0.
 - can be attained, with an inflation that eventually stabilizes at a constant level.
 - None of the above – only seigniorage can exceed the peak of the Laffer Curve.
11. According to the Natural Rate Hypothesis, when unemployment is on the horizontal axis and inflation on the vertical axis, the **Short Run** Phillips curve is
- upward sloping
 - downward sloping
 - vertical
 - horizontal
 - U-shaped
12. According to the Natural Rate Hypothesis, when unemployment is on the horizontal axis and inflation on the vertical axis, the **Long Run** Phillips curve is
- upward sloping
 - downward sloping
 - vertical
 - horizontal
 - U-shaped
13. If c , the public's desired ratio of currency to checkable deposits **increases**, while f , the banks' desired ratio of reserves to deposits remains **constant**, the bank expansion multiplier will
- decrease under fractional reserve banking.
 - decrease under 100% reserve banking.
 - remain constant under fractional reserve banking.
 - increase under 100% reserve banking.
 - increase under fractional reserve banking.
14. From 1955 to 2000, the Bank Expansion Multiplier (adjusted for Sweep Accounts) was typically in the range
- 1.5 – 2.0
 - 2.1 – 2.5
 - 2.6 – 3.0
 - 3.1 – 3.5
 - 3.6 or higher

15. From 1955 to 1995, the required reserve ratio f_R generally
- was constant
 - declined over time
 - rose over time
 - declined to 1975, and then rose
 - rose to 1975, and then declined.
16. An open market **sale** of securities by the Fed will tend to
- increase yields on the bonds the Fed sells.
 - decrease yields on the bonds the Fed sells.
 - increase coupon rates on the bonds the Fed sells.
 - decrease coupon rates on the bonds the Fed sells.
 - have no effect on either yields or coupon rates.
17. Between 2007 and 2011, the monetary base
- was approximately constant
 - increased approximately 10%
 - increased approximately 20%
 - increased approximately 30%
 - approximately tripled
18. Bank excess reserves deposited with the Fed pay
- zero interest before and after Oct. 2008.
 - positive interest before and after Oct. 2008.
 - zero interest before Oct. 2008 but positive interest since.
 - positive interest before Oct. 2008 but zero interest since.
 - negative interest, in the form of fees, before and after Oct. 2008.
19. The bulk of the increase in the monetary base between 2007 and 2011 has gone into
- increased **M1** balances, in proportion to the base
 - increased **Currency** holdings by the public
 - increased **Required Reserve** holdings by banks
 - increased **Excess Reserve** holdings by banks
 - None of the above – the **base was nearly constant** during this period.
20. If the Fed is following the “Taylor Rule,” and the equilibrium real interest rate is **3%**, what steady-state inflation rate will result?
- 1% or less
 - 2%
 - 3%
 - 4%
 - 5% or more

21. Which US wartime experience was characterized by two sharp deflations after the war?
- a) Civil War
 - b) World War I
 - c) World War II
 - d) Korean War
 - e) Vietnam War
22. During which US wartime experience were Open Market Operations relied upon for the first time to help finance the war?
(Same key as previous question)
23. Which US wartime experience had 14 years of gradual deflation after the war, bringing the price level back to near its pre-war level?
(Same key as previous question)
24. The sharp US deflation from 1929-33 was caused by
- a) an increase in the US mint price of gold
 - b) a decrease in the US mint price of gold
 - c) a sharp increase in the US money stock
 - d) a deliberate deflationary policy by the Fed
 - e) Europe's attempt to return to return to gold after WW I.
25. The US was able to avoid deflation after World War II without a devaluation of the dollar in terms of gold because
- a) American goods were in demand throughout the world.
 - b) American demand for foreign goods was particularly high.
 - c) There was negligible inflation during the war.
 - d) The US had already unnecessarily raised its gold price in 1933.
 - e) The US had already unnecessarily lowered its gold price in 1933.
26. The National Industrial Recovery Act of 1933
- a) subsidized industrial production
 - b) broke up illegal industrial cartels
 - c) enforced compulsory industrial cartels
 - d) compelled unionization on a majority vote of incumbent workers
 - e) purchased Troubled Assets from corporations on the brink of failure.

27. Abstracting from inflation, leverage enables investors to specialize in stocks or debt instruments according to their level of information about a firm's prospects and/or their degree of risk aversion. In particular, **stocks** will tend to be held by investors who are
- a) more informed and more risk-averse
 - b) more informed and less risk-averse
 - c) less informed and more risk-averse
 - d) less informed and less risk-averse
 - e) all investors should prefer stocks
28. And **debt** will tend to be held by investors who are
(same key as previous question)
29. If Burning River National Bank has a leverage ratio of 10:1, a 1% **increase** in the value of its assets will change the value of its equity by
- a) -10%
 - b) -1%
 - c) zero
 - d) +1%
 - e) +10%
30. If Burning River National Bank, a commercial bank with a leverage ratio of 10:1, is wholly owned by Burning River Bankshares Corp, a bank holding company with a 5:1 leverage ratio of its own, a **1% increase in the value of BRNB's assets** will change the value of BRBC's equity by
- a) zero
 - b) +2.0%
 - c) +5 %
 - d) +10%
 - e) +50%
31. The 2008 TARP "bank bailout" money was advanced to
- a) the FDIC
 - b) depositors at insured commercial banks
 - c) insured commercial banks
 - d) bank holding companies
 - e) shareholders of bank holding companies

32. A Ponzi Fund
- a) is a mutual fund that holds only very short maturity, highly marketable debt instruments
 - b) is a mutual fund that invests in a diversified portfolio of Italian stocks
 - c) hedges risky investments using sophisticated trading strategies invented by Alfredo Ponzi
 - d) pays a high rate of return to investors using newly invested funds
 - e) is a college savings plan for Americans of Italian ancestry
33. The 1932 Federal Home Loan Bank system encouraged Federal Savings and Loan Associations to make
- a) 30-year fixed rate amortized home loans
 - b) 5-year balloon home loans
 - c) Adjustable Rate mortgages with a 1-year reset period
 - d) Adjustable Rate mortgages with a 5-year reset period
 - e) commercial loans.
34. The 1932 Federal Home Loan Bank system encouraged Federal Savings and Loan Associations to fund home loans with
- a) zero maturity checking accounts
 - b) zero maturity savings accounts
 - c) Certificates of Deposit with average duration equal to that of its loans
 - d) Certificates of Deposit with average duration less than that of its loans
 - e) Certificates of Deposit with average duration greater than that of its loans
35. When interest rates are positive, an amortized fixed rate loan must have Duration
- a) greater than its maturity
 - b) equal to its maturity
 - c) greater than half its maturity
 - d) equal to half its maturity
 - e) less than half its maturity
36. If thrift institutions have short-term deposits and make long-term loans, a *rise* in interest rates will
- a) raise their economic net worth.
 - b) lower their economic net worth.
 - c) leave their net worth unchanged, so long as they are federally insured.
 - d) leave their net worth unchanged so long as they are *not* federally insured.
 - e) none of the above.

37. During the 1950's-70's, U.S. Savings and Loan Associations typically had
- long-term assets and short-term liabilities.
 - short-term assets and long-term liabilities.
 - long-term assets and long-term liabilities.
 - short-term assets and short-term liabilities.
 - both long- and short-term assets, but few if any liabilities
38. The 1980s problems of the U.S. thrift industry began
- 1971-4 as a result of the Vietnam-era price controls.
 - 1950-82 as a result of rising interest rates.
 - 1983-87 as a result of real estate speculation.
 - 1987-91 as a result of involvement with the House Bank.
 - None of the above; the U.S. thrift industry was quite healthy in the 1980s.
39. Which of the following does **not** characterize the status of Fannie Mae and Freddie Mac in 2007?
- They were exempt from state and local taxation.
 - Their bonds were explicitly backed by the Full Faith and Credit of the U.S. government.
 - They had a line of credit enabling them to borrow from the U.S. Treasury.
 - They were exempt from SEC oversight.
 - They were privately owned corporations.
- 40 Fannie Mae and Freddie Mac fund their mortgage portfolios with
- zero maturity checking accounts
 - zero maturity savings accounts
 - FDIC-insured Certificates of Deposit
 - bonds of various maturities
 - unleveraged equity
41. The Garn-St Germain Act of 1982
- closed the FSLIC
 - introduced MMDA accounts
 - placed the Full Faith and Credit of the US behind insured deposits
 - deregulated deposit interest rates
 - strengthened bank capital standards
42. The DIDMCA of 1980
(Same key as above)

43. Interstate branch banking was permitted by legislation passed in
- 1863
 - 1933
 - 1980
 - 1994
 - none of the above – interstate branch banking is not permitted.
44. The Glass-Steagall barrier between commercial banking and investment banking was
- effectively repealed in 1933
 - effectively repealed in 1982
 - effectively repealed in 1994
 - effectively repealed in 1999
 - none of the above – this legal barrier still stands
45. The FDIC's Deposit Insurance Fund (which merged the BIF and SAIF in 2006) was recently far below its target of 1.25% of insured deposits, and even negative. This is the worst crisis the FDIC has experienced since
- The Great Depression of the 1930s
 - 1973-75
 - 1982
 - 1991
 - 2003
46. The FSLIC
- replaced the now-defunct SAIF in 1989
 - is an industry-supported fund that insures Savings and Loan Associations at no cost to taxpayers.
 - replaced the now-defunct FDIC in 1989.
 - insured deposits at Savings and Loan Associations during the bimetallic period.
 - was closed in 1989 at a cost to taxpayers estimated to be \$175 billion.
47. Which of the following is *not* a provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010?
- Requires Fannie Mae and Freddie Mac to undergo chapter 11 reorganization and reemerge as private corporations regulated by the SEC
 - Restricts the Fed from using emergency lending authority to bail out individual companies
 - Repeals the 1933 ban on interest on business Demand Deposits
 - Authorizes the FDIC to guarantee uninsured debt of solvent banks to prevent runs
 - Imposes restrictions on purchases of minerals from the Democratic Republic of the Congo

48. A **forward** foreign exchange rate is for
- a) present payment and present delivery
 - b) present payment but future delivery
 - c) future payment but present delivery
 - d) future payment and future delivery
 - e) none of the above – forward exchange transactions are not permitted under US law
49. If U.S. inflation is **4%**, while Japanese inflation is **6%**, what rate of change of the foreign exchange value of the dollar (expressed in terms of yen per dollar) is predicted by Purchasing Power Parity?
- a) -10%
 - b) -2%
 - c) 0%
 - d) +2%
 - e) +10%
50. High real interest rates in the US relative to the rest of the world will tend to
- a) increase trade demand for the dollar
 - b) decrease trade demand for the dollar
 - c) increase investment demand for the dollar
 - d) decrease investment demand for the dollar
 - e) sterilize the balance of payments deficit
51. A **decrease in foreign demand for investment in the U.S.** will tend to
- a) shift the foreign exchange **supply** of dollars to the **left** and **reduce** the value of the dollar in terms of foreign currencies.
 - b) shift the foreign exchange **demand** for dollars to the **left** and **reduce** the value of the dollar in terms of foreign currencies.
 - c) shift the foreign exchange **supply** of dollars to the **left** and **increase** the value of the dollar in terms of foreign currencies.
 - d) shift the foreign exchange **demand** for dollars to the **left** and **increase** the value of the dollar in terms of foreign currencies.
 - e) None of the above.
52. A **decrease in US demand for foreign goods** will tend to
(same key as above)

53. A country has a balance of payments **deficit problem** when
- foreign central banks fix its exchange rate and the domestic currency is overvalued at the official exchange rate.
 - foreign central banks fix its exchange rate and the domestic currency is undervalued at the official exchange rate.
 - it fixes its exchange rate and the domestic currency is overvalued at the official exchange rate.
 - it fixes its exchange rate and the domestic currency is undervalued at the official exchange rate.
 - none of the above; balance of payments deficits are not a real problem.
54. When the domestic central bank fixes the exchange rate at a level that **undervalues** the domestic currency and allows the Specie Flow Mechanism to operate,
- the central bank tends to accumulate international reserves and the domestic monetary base falls.
 - the central bank tends to accumulate international reserves and the domestic monetary base rises.
 - the central bank tends to lose international reserves and the domestic monetary base falls.
 - the central bank tends to lose international reserves and the domestic monetary base rises.
 - international reserves and the domestic monetary base tend to remain constant.
55. *Sterilizing* a Balance of Payments Deficit tends to
- reduce the trade demand for the domestic currency
 - increase the trade demand for the domestic currency
 - correct the underlying cause of the deficit
 - reverse the deficit, turning it into a surplus
 - lead to continuing losses of international reserves
56. Which of the following is a Balance of Payments **Deficit suppression** measure?
- restricting domestic investment by foreigners
 - subsidizing foreign investment by domestics
 - restricting exports
 - restricting imports
 - devaluation
57. In the long run, adopting and maintaining a fixed exchange rate requires a central bank to give up control over
- the domestic nominal money stock
 - domestic nominal interest rates
 - the domestic price level
 - all of the above
 - none of the above

58. Since 2001, the real value of the Euro relative to the US Dollar
- a) was relatively constant.
 - b) generally declined
 - c) generally increased
 - d) has been fixed at 1.35 \$/Euro.
 - e) none of the above – the Euro was discontinued in 1999.
59. The dollar has been floating relative to other major world currencies since
- a) 1951
 - b) 1968
 - c) 1973
 - d) 1999
 - e) the dollar has been fixed relative to other major currencies all along
60. The Chinese yuan renminbi has mostly been
- a) fixed and overvalued relative to the dollar since 1994
 - b) fixed and undervalued relative to the dollar since 1994
 - c) floating relative to the dollar since 1994
 - d) barred from foreign exchange markets since 1994
 - e) replaced by physical dollars in circulation within China

Have a great summer!

code q