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Econ 520 S11a

Second Midterm (typo corr.)

1 hour, 48 minutes. **Closed book, notes, cell phones, Twitter links, etc. Graphing calculators, PDAs etc. may not be used.** A non-graphing calculator may be used if desired. Please cover your answers.

100 points – 40 @ 2.5 points each. Answer each of the following on your computer answer sheet, using a soft (#2) pencil. Bubble in your name on your answer sheet. Social Security # is not required. Make sure you have all 40 questions. Scoring is by number right, so it pays to guess. When done, please place your answer sheet inside this question sheet and hand in both, presenting your photo ID card to the proctor.

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

1 **Official** M1 includes

- a) NOW accounts
- b) Certificates of deposit
- c) Money market mutual funds
- d) Money market deposit accounts
- e) Nonbank repos

2. Which of the following is **not** typically a commercial bank liability?

- a) demand deposits
- b) certificates of deposit
- c) federal funds purchased
- d) money market deposit accounts
- e) commercial loans

3. The Federal Funds rate is

- a) the rate at which the Fed lends directly to banks
- b) the rate banks charge their best customers (in theory)
- c) the implicit yield on Federal Treasury bonds
- d) the rate the Fed charges on repurchase agreements
- e) the rate banks charge each other for overnight use of reserves

4. The Prime rate is

(same key as previous question)

5. The Discount Rate is

(same key as previous question)

6. When the public deposits currency in banks, the immediate effect is
 - a) the monetary base increases
 - b) the monetary base decreases
 - c) the money supply increases
 - d) the money supply decreases
 - e) neither the base nor the money supply changes
7. When banks make new loans out of surplus reserves, the immediate effect is
(Same key as above)
8. If the monetary base B is \$1.00 trillion and the bank expansion multiplier k is 2.5, the money stock M will be
 - a) \$400 billion
 - b) \$1.00 trillion
 - c) \$1.25 trillion
 - d) \$2.50 trillion
 - e) can't tell without knowing the required reserve ratio
9. What is the bank expansion multiplier if the public's desired ratio of currency to checkable deposits is 0.30, while the banks' desired ratio of reserves to checkable deposits is 0.20?
 - a) 1.50
 - b) 2.40
 - c) 2.60
 - d) 3.33
 - e) 5.00
10. 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
 - a) decrease under fractional reserve banking.
 - b) decrease under 100% reserve banking.
 - c) remain constant under fractional reserve banking.
 - d) increase under 100% reserve banking.
 - e) increase under fractional reserve banking.
11. From 1955 to 2000, the Bank Expansion Multiplier (adjusted for Sweep Accounts) was typically in the range
 - a) 1.5 – 2.0
 - b) 2.1 – 2.5
 - c) 2.6 – 3.0
 - d) 3.1 – 3.5
 - e) 3.6 or higher

12. One factor that has been used to account for the great increase in the official M1 currency/deposit ratio from 1955 to 1995 is
- a) increased foreign use of US currency
 - b) the attractive new design of \$5, \$10, and \$20 bills
 - c) increased counterfeiting
 - d) a decline in the “underground economy”
 - e) the introduction of retail “sweep” accounts
13. The primary factor that accounts for the even greater increase in the **official** M1 currency/deposit ratio from 1995 to 2007 is
- a) increased foreign use of US currency
 - b) the attractive new design of \$5, \$10, and \$20 bills
 - c) increased counterfeiting
 - d) a decline in the “underground economy”
 - e) the introduction of retail “sweep” accounts
14. From 1955 to 1995, the required reserve ratio f_R generally
- a) was constant
 - b) declined over time
 - c) rose over time
 - d) declined to 1975, and then rose
 - e) rose to 1975, and then declined.
15. Ben Bernanke’s current term **as Chairman** of the Federal Reserve Board expires or expired
- a) January 2012 and he may not be renominated for a third term
 - b) January 2012 and he may be renominated for a third term.
 - c) January 2014 and he may not be renominated for a third term.
 - d) January 2014 and he may be renominated for third term.
 - e) January 2020
16. If each of the 7 members of the Federal Reserve Board served until his or her term expired, how many members would at present be appointees of President Barack Obama?
- a) 0
 - b) 1
 - c) 2
 - d) 3
 - e) 4 or more
17. In fact, how many of the seats on the Federal Reserve Board have either been filled by President Barack Obama or are vacant and therefore could be filled by him immediately?
(Same key as above)

18. The bulk of the profits of the Federal Reserve System
- a) are paid out as dividends to commercial banks who own stock in the Fed
 - b) are paid out as interest to holders of NOW accounts
 - c) are turned over to the FDIC's Bank Insurance Fund
 - d) are turned over to the Treasury
 - e) none of the above – the Fed rarely makes a profit.
19. If the Fed's holdings of securities **increase** by \$60 billion, its international reserves **increase** by \$40 billion, and loans to member banks **decrease** by \$10 billion, what is the change in the monetary base?
- a) -\$30 billion
 - b) +\$10 billion
 - c) +\$30 billion
 - d) +\$90 billion
 - e) +\$110 billion
20. If the Fed's international reserves **increase** by \$40 billion, and loans to member banks **decrease** by \$10 billion, what **defensive open market operation** is required to prevent any change in the monetary base?
- a) -\$50 billion
 - b) -\$30 billion
 - c) \$0 billion
 - d) +\$30 billion
 - e) +\$50 billion
21. An open market **purchase** of securities by the Fed will tend to
- a) increase yields on the bonds the Fed buys.
 - b) decrease yields on the bonds the Fed buys.
 - c) increase coupon rates on the bonds the Fed buys.
 - d) decrease coupon rates on the bonds the Fed buys.
 - e) have no effect on either yields or coupon rates.
22. Traditionally (i.e. before 2008), most of the **year-to-year** growth in the monetary base has been attributable to
- a) loans to securities dealers via repurchase agreements
 - b) outright purchases of Treasury securities
 - c) discount window loans
 - d) purchases of international reserves
 - e) provision of currency when banks withdraw funds from their reserve accounts with the Fed.

23. Traditionally (i.e. before 2008), the Fed has maintained close **day-to-day** control over the Fed Funds rate through its
- a) loans to securities dealers via repurchase agreements
 - b) outright purchases and sales of securities
 - c) discount window loans
 - d) international reserve transactions
 - e) provision of currency when banks withdraw funds from their reserve accounts with the Fed.
24. Between 2007 and 2011, the monetary base
- a) was approximately constant
 - b) increased approximately 10%
 - c) increased approximately 20%
 - d) increased approximately 30%
 - e) approximately tripled
25. Bank excess reserves deposited with the Fed pay
- a) zero interest before and after Oct. 2008.
 - b) positive interest before and after Oct. 2008.
 - c) zero interest before Oct. 2008 but positive interest since.
 - d) positive interest before Oct. 2008 but zero interest since.
 - e) negative interest, in the form of fees, before and after Oct. 2008.
26. The bulk of the increase in the monetary base between 2007 and 2011 has gone into
- a) increased **M1** balances, in proportion to the base
 - b) increased **Currency** holdings by the public
 - c) increased **Required Reserve** holdings by banks
 - d) increased **Excess Reserve** holdings by banks
 - e) None of the above – the **base was nearly constant** during this period.
27. If the Fed buys \$300 billion in new Treasury Securities, but the Treasury holds the proceeds of the sale of these securities on deposit with the Fed, the change in the monetary base will be (holding other factors constant)
- a) -\$600 billion
 - b) -\$300 billion
 - c) zero
 - d) +\$300 billion
 - e) +\$600 billion

28. If the Fed advances \$100 billion to American International Group (AIG), but simultaneously sells \$100 billion in Treasury securities, the change in the monetary base will be (holding other factors constant)
- a) -\$200 billion
 - b) -\$100 billion
 - c) zero
 - d) +\$100 billion
 - e) +\$200 billion
29. A **one-time decrease** in the **nominal money stock** will tend to cause the **nominal** interest rate to
- a) increase in both the short run and the long run
 - b) decrease in both the short run and the long run
 - c) increase in the short run with no change in the long run
 - d) decrease in the short run with no change in the long run
 - e) remain unchanged in both the short and long runs.
30. A **permanent increase** in the **rate of monetary expansion** will tend to cause the **nominal** interest rate to
- a) increase in both the short run and the long run
 - b) decrease in both the short run and the long run
 - c) increase in the short run, but decrease in the long run
 - d) decrease in the short run, but increase in the long run
 - e) remain unchanged in both the short and long runs.
31. The **liquidity effect** of an **increase** in the nominal money supply is the short run
- a) **increase** in interest rates required for the public to **borrow** the new money with the intent of **spending** it
 - b) **increase** in interest rates required for the public to **hold** the new money
 - c) **decrease** in interest rates required for the public to **borrow** the new money with the intent of **spending** it
 - d) **decrease** in interest rates required for the public to **hold** the new money
 - e) **increase** in beer consumption off campus as the new money is **spent**.
32. The banking system (Fed plus banks) can hold the real interest rate below its equilibrium value by creating an
- a) excess demand for money
 - b) excess supply of money
 - c) excess demand for money if inflation exceeds 3%, but an excess supply of money otherwise
 - d) excess supply of money if inflation exceeds 3%, but an excess demand for money otherwise
 - e) None of the above – this will have no effect on the excess supply or demand for money.

33. If the Fed is following the “Taylor Rule,” and inflation is 3% while output is estimated to be just at its potential level, the Fed Funds Rate target will be
- a) 2%
 - b) 4.5%
 - c) 5%
 - d) 5.5%
 - e) 6.5%
34. If the Fed is following the “Taylor Rule,” and inflation is 3% while output is estimated to be 1% below its potential level, the Fed Funds Rate target will be (same key as previous question)
35. If the Fed is following the “Taylor Rule,” and the equilibrium real interest rate is 4%, what steady-state inflation rate will result?
- a) 1% or less
 - b) 2%
 - c) 3%
 - d) 4%
 - e) 5% or more
36. The time lag between a problem exists and when policy makers realize it exists is called the
- a) outside lag
 - b) implementation lag
 - c) recognition lag
 - d) distributed lag
 - e) decision lag
37. According to Milton Friedman and Anna Schwartz, the long and unpredictable lag between the the implementation of monetary policy and its effects on real output tends to
- a) strengthen the effect of stabilization policy
 - b) have no effect on the effects of stabilization policy
 - c) cause stabilization policy to be counterproductive
 - d) cause inflation
 - e) cause deflation
38. The average annual CPI-U inflation rate over the past 12 months (3/10 to 3/11 or 2/10 to 2/11) has been in which range?
- a) 0.9% or less
 - b) 1.0 – 1.9%
 - c) 2.0 – 2.9 %
 - d) 3.0 – 3.9 %
 - e) 4.0% or more

39. Unemployment benefits in most states, including Ohio, currently extend for up to
- a) 13 weeks
 - b) 26 weeks
 - c) 39 weeks
 - d) 53 weeks
 - e) 99 weeks
40. Between 2007 and 2009, the Federal Minimum Wage increased by approximately
- a) 0%
 - b) 4%
 - c) 8%
 - d) 12%
 - e) 40%

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