Penn State University – Abington College

ECON 104 (Macro)   Exam #5 SAMPLE Test   Anthony O. Gyapong, Ph.D

1. What condition must be present in order for a barter economy to work?

a. There must be a stable money supply.
b. Taxes on exchanges must be minimal.
c. A double coincidence of wants must exist.
d. The items must be portable.
e. There must be at least one witness to the exchange.

2. The *most* important function of money is that it serves as a:
a. unit of account.
b. medium of exchange.
c. store of value.
d. all of the above.

3. Use the following to answer question 15:

Money market mutual fund balances	**$ 220**
Currency in banks	**10**
Currency in circulation, outside of banks	**60**
Savings deposits, including money market deposit accounts	**50**
Large ($100,000 or more) time deposits	**180**
Small ($100,000 or more) time deposits	**80**
Checkable deposits	**70**

Refer to the above information. Money supply *M1* for this economy is:
a. $60
b. $70
c. $130
d. $140

4. The forerunners (originators) of modern banking were the Merchants of Venice, uniquely known for their trading ventures around the world.
A) True   B) False

5. The reserves of a commercial bank consist of:
a. only the amount of money market funds it holds.
b. vault cash and deposits at the Federal Reserve Bank.
c. government securities that the bank holds.
c. the bank's net worth.

6. Exchanging one good for another without the use of money constitutes
A) liquidity.
B) token exchange
C) barter
D) a standard of deferred payment

7. The reserve requirement states that all banks must maintain as currency reserves a specified percentage of the bank's own outstanding ______________________ .
A) total liabilities.
B) total reserves
C) checkable deposit liabilities
D) total assets

8. Suppose you decide to withdraw $2,000 from your checking account and use the money to buy a bank certificate of deposit (time deposit). How will this action affect M1 and M2 ?
A) Your action reduces M1 by $2,000 and increases M2 by $2,000.
B) Your action reduces M1 by $2,000 but leaves M2 unchanged.
C) Your action reduces M1 by $2,000 and reduces M2 by $2,000
D) Your action leaves both M1 and M2 unchanged.

9. The use of money in order to measure the value of other assets is called the ______________ function of money.

(a) **store of value**
(b) **tax-paying**
(c) **medium of exchange**
(d) **valuation**
(e) **unit of account**

10. Topic: Money Supply

Which of the following is *not* counted as part of M1?
a. Coins.
b. Federal Reserve notes or "paper money".
c. Passbook savings deposits.
d. Checkable deposits.

11. Topic: Money creation
Banks create money when they make loans.
a. True b. False

12 Topic: Federal funds rate

The federal funds rate is the interest rate charged by:
a. banks for loans to other banks.
b. the Fed for overnight loans.
c. the Fed for borrowed reserves.
d. the federal government on loans to member banks.

13 Topic: Required Reserve

The required reserves of a bank is determined by multiplying the bank's checkable deposit liabilities by the reserve ratio.
A. True B. False

14 Topic: Banking balance sheet

Which of the following does *not* appear on the asset side of a bank's balance sheet?
a. Vault Cash.
b. Checkable deposits.
c. Loans.
d. Government Securities

15 Topic: Banking balance sheet

Which of the following is *not* an interest-bearing asset of commercial banks?
a. Required reserves.
b. Securities.
c. Loans.
d. All of the above are interest-bearing assets of commercial banks.

16 Topic: Banking balance sheet

Assume that all banks are subject to a uniform 10 percent reserve requirement. A commercial bank receiving a new demand (checkable) deposit of $100 would be able to extend new loans in the amount of:
a. $10.
b. $90.
c. $100.
d. $1,000.

17 Topic: Money multiplier

A decrease in the required-reserve ratio will increase banks' excess reserves and decrease the money multiplier.
A. True B. False

18 Topic: Money creation

Best National Bank is subject to a 10 percent required-reserve ratio. If this bank received a new checkable deposit of $1,000, it could make new loans of:
a. $100.
b. $900.
c. $1,000.
d. $10.000.

19 Topic: Money multiplier

If the required-reserve ratio is a uniform 25 percent on all deposits, the money multiplier will be:
a. 4.00. **c. 1.33.**
b. 2.50. **d. 0.25.**

20 Topic: Money multiplier

Assume a simplified banking system subject to a 20 percent required-reserve ratio. If there is a n initial increase in excess reserves of $100,000, the maximum expansion in the money supply by the entire banking system is:
a. $100,000
b. $500,000
c. $600,000
d. $400,000

21 Topic: Tools of Monetary policy

Which of the following policy actions by the Fed would cause the money supply to decrease?
a. An open-market purchase of government securities.
b. a decrease in required-reserve ratios.
c. An increase in the discount rate.
d. A decrease in the discount rate.

22 Topic: Tools of Monetary Policy

Which of the following actions by the Fed would increase the money supply?
a. Increasing the required-reserve ratio.
b. Selling government bonds in the open market.
c. Increasing the discount rate.
d. Reducing the required-reserve ratio.

23. Which of the following are sources of foreign demand for U.S. dollars?

a. foreign firms and consumers who want to buy goods and services produced in the
United States
b. foreign firms and consumers who want to invest in the United States
c. currency traders who believe that the value of the dollar in the future will be greater
than its value today
d. all of the above

24. When the exchange rate is above the equilibrium exchange rate, there is a ___________
of dollars, and consequently ______________ pressure on the exchange rate.

a. surplus; upward
b. surplus; downward
c. shortage; upward
d. shortage; downward

25. Currency _____________ occurs when the market value of a country's currency rises relative to the value of another country's currency, while currency __________________ occurs when the market value of a country's currency declines relative to value of another country's currency.

a. appreciation; depreciation
b. depreciation; appreciation
c. valuation; devaluation
d. devaluation; valuation

26. If the exchange rate changes from ¥100 = $1 to ¥120 = $1, the dollar has _____________ and the yen has ____________________.

a. appreciated; depreciated
b. depreciated; appreciated
c. revalued; devalued
d. devalued; revalued

27. Which of the following factors cause both the demand curve and the supply curve for dollars in the foreign exchange market to shift?

a. changes in the demand for U.S. produced goods and services and changes in the demand for foreign produced goods and services
b. changes in the desire to invest in the United States and changes in the desire to invest in foreign countries
c. changes in the expectations of currency traders concerning the likely future value of the dollar and the likely future value of foreign currencies
d. all of the above

28. Currency traders who buy and sell foreign exchange is an attempt to profit from changes in exchange rates are

a. hedgers.
b. speculators.
c. arbitrageurs.
d. risk takers.

29. When will the demand curve for dollars shift to the right?

a. when incomes in Japan fall
b. when interest rates in the United State fall
c. when speculators decide that the value of the dollar will rise relative to the value of the yen
d. all of the above

30. An increase in interest rates in Japan will

a. leave the supply curve of dollars unchanged.
b. shift the supply curve of dollars to the right.
c. shift the supply curve of dollars to the left.
d. shift the demand curve for dollars to the right.

31. A recession in the United States will

a. leave the supply curve of dollars unchanged.
b. shift the supply curve of dollars to the right.
c. shift the supply curve of dollars to the left.
d. shift the demand curve for dollars to the right.

32. In the foreign exchange market for dollars, which of the following will cause the equilibrium exchange rate to rise?

a. An increase in supply that is greater than an increase in demand
b. A decrease in demand that is greater than an increase in supply
c. A decrease in supply that is greater than a decrease in demand
d. A decrease in demand accompanied by an increase in supply

33. A depreciation in the domestic currency will

a. increase exports and decrease imports, thereby increasing net exports.
b. increase exports and imports, thereby increasing net exports.
c. decrease exports and increase imports, thereby decreasing net exports.
d. decrease exports and imports, thereby decreasing net exports.

34. If the dollar price of a euro is $1.45, then the euro price of a dollar is

a. €1.45
b. €1.00
c. €0.69
d. €0.45

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Econ 104 (Macro) Exam #5 SAMPLE TEST ANSWER KEY

1.	C		13.	A		25.	A
2.	B		14.	B		26.	A
3.	C		15.	A		27.	D
4.	B		16.	B		28.	B
5.	B		17.	B		29.	C
6.	C		18.	B		30.	B
7.	C		19.	A		31.	C
8.	B		20.	B		32.	C
9.	E		21.	C		33.	A
10.	C		22.	D		34.	C
11.	A		23.	D		35.	
12.	A		24.	B		36.	