

Feedback — Week Four Quiz

[Help](#)

You submitted this quiz on **Sun 9 Feb 2014 2:47 PM PST**. You got a score of **43.00** out of **43.00**.

Question 1

Monetary Policy involves changes in the money supply to:

Your Answer	Score	Explanation
<input type="radio"/> 1. Contract the economy		
<input type="radio"/> 2. Expand the economy		
<input type="radio"/> 3. Diversify the economy		
<input checked="" type="radio"/> 1 & 2 only	✓ 1.00	
<input type="radio"/> 2 & 3 only		
Total	1.00 / 1.00	

Question 2

Richard Nixon may have lost the 1960 presidential election to John F. Kennedy because of:

Your Answer	Score	Explanation
<input type="radio"/> Exchange rate policy		
<input checked="" type="radio"/> Monetary policy	✓ 1.00	
<input type="radio"/> Fiscal policy		

☐ Not sure

Total 1.00 / 1.00

Question 3

Checkbooks represent a form of:

Your Answer	Score	Explanation
<input type="radio"/> Fiat or paper money		
<input checked="" type="radio"/> Bank Money	1.00	
<input type="radio"/> Commodity money		
<input type="radio"/> Not sure		
Total	1.00 / 1.00	

Question 4

Which is NOT a function of money?

Your Answer	Score	Explanation
<input type="radio"/> Standard of value		
<input checked="" type="radio"/> Medium of barter	✓ 1.00	
<input type="radio"/> Medium of exchange		
<input type="radio"/> Store of value		
Total	1.00 / 1.00	

Question 5

When we say that one stick of butter exchanges for two loaves of bread, we are referring to what function of money?

Your Answer	Score	Explanation
<input type="radio"/> Medium of barter		
<input checked="" type="radio"/> Standard of value	✓ 1.00	
<input type="radio"/> Medium of exchange		
<input type="radio"/> Store of value		
Total	1.00 / 1.00	

Question 6

In the presence of inflation, the value of money:

Your Answer	Score	Explanation
<input type="radio"/> Is unaffected		
<input checked="" type="radio"/> Decreases	1.00	
<input type="radio"/> Increases		
<input type="radio"/> Not sure		
Total	1.00 / 1.00	

Question 7

Interest is:

Your Answer	Score	Explanation
<input type="radio"/> 1. The payment made for the use of money		
<input type="radio"/> 2. The "price of money"		
<input type="radio"/> 3. The rate of return from commodity money		
<input type="radio"/> All of the above		
<input checked="" type="radio"/> 1 & 2 only	1.00	
Total	1.00 / 1.00	

Question 8

Suppose the interest rate is 8% and you deposit \$5000 in the bank. What will your deposit be

worth in a year?

Your Answer	Score	Explanation
<input type="radio"/> \$5600		
<input checked="" type="radio"/> \$5400	1.00	
<input type="radio"/> \$5200		
<input type="radio"/> \$5800		
Total	1.00 / 1.00	

Question 9

The longer the term of a loan:

Your Answer	Score	Explanation
<input checked="" type="radio"/> The higher the interest rate	1.00	
<input type="radio"/> The lower the interest rate		
<input type="radio"/> There is no difference in the interest rate		
<input type="radio"/> Not sure		
Total	1.00 / 1.00	

Question 10

Which of these investments would have the lowest interest paid out?

Your Answer	Score	Explanation
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☐ The “junk bonds” of businesses close to bankruptcy,

☒ The bonds of the U.S. government ✓ 1.00

☐ The bonds of countries with large overseas debt and unstable political systems.

☐ The municipal bonds of cities with shrinking tax bases,

Total 1.00 /
1.00

Question 11

The more liquid the loan:

Your Answer	Score	Explanation
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☐ There is no difference in the interest rate

☒ The lower the interest rate ✓ 1.00

☐ The higher the interest rate

☐ Not sure

Total 1.00 / 1.00

Question 12

If you want to adjust for inflation when evaluating an investment, you would rely on the:

Your Answer	Score	Explanation
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☐ Normalized interest rate

<input checked="" type="radio"/> Real interest rate	✓	1.00
<input type="radio"/> Nominal interest rate		
<input type="radio"/> Not sure		
Total		1.00 / 1.00

Question 13

Suppose the nominal interest rate is 12% and the real interest rate is 6%. What must be the rate of inflation?

Your Answer	Score	Explanation
<input type="radio"/> 18%		
<input checked="" type="radio"/> 6%	✓ 1.00	
<input type="radio"/> 3%		
<input type="radio"/> 24%		
Total		1.00 / 1.00

Question 14

The major determinants of money demand are:

Your Answer	Score	Explanation
<input type="radio"/> 1. Asset demand		
<input type="radio"/> 2. Transactions demand		

☐ 3. Withdrawal demand

☐ All of the above

☒ 1 & 2 only



1.00

Total

1.00 / 1.00

Question 15

The basic determinant of transactions demand is:

Your Answer

Score

Explanation

☐ Real GDP

☒ Nominal GDP



1.00

☐ Normalized GDP

☐ Not sure

Total

1.00 / 1.00

Question 16

If prices and (real GDP plus inflation) triple, what happens to the transactions demand for money?

Your Answer

Score

Explanation

☐ Doubles

☒ Triples



1.00

☐ Stays the same

☐ Not sure

Total

1.00 / 1.00

Question 17

When you hold cash rather than invest it in stocks or bonds and wait for a better price, such speculation is an example of what kind of demand for money?

Your Answer	Score	Explanation
<input checked="" type="radio"/> 1. Asset demand	✓ 1.00	
<input type="radio"/> 2. Transactions demand		
<input type="radio"/> 3. Withdrawal demand		
<input type="radio"/> All of the above		
<input type="radio"/> 1 & 2 only		
Total	1.00 / 1.00	

Question 18

Inflation:

Your Answer	Score	Explanation
<input type="radio"/> Has no effect on the value of money		
<input checked="" type="radio"/> Decreases the value of money	✓ 1.00	
<input type="radio"/> Increases the value of money		

☐ Not sure

Total

1.00 / 1.00

Question 19

Examples of the “opportunity cost” of holding money include:

Your Answer	Score	Explanation
<input type="radio"/> 1. The interest that could have been earned by lending the money.		
<input type="radio"/> 2. The rate of return that could have been earned by investing the money in stocks.		
<input type="radio"/> 3. The increase in value from holding money during inflation.		
<input type="radio"/> All of the above		
<input checked="" type="radio"/> 1 & 2 only	✓ 1.00	
Total	1.00 / 1.00	

Question 20

If interest rates rise, what happens to the asset demand for money?

Your Answer	Score	Explanation
<input type="radio"/> Stays the same		
<input checked="" type="radio"/> Decreases	✓ 1.00	

☐ Increases☐ Not sure

Total

1.00 / 1.00

Question 21

The goldsmiths of several hundred years ago accounted for the first:

Your Answer	Score	Explanation
<input type="radio"/> 1. Bank interest		
<input type="radio"/> 2. Paper money		
<input type="radio"/> 3. Fractional reserve banking		
<input checked="" type="radio"/> All of the above	✓ 1.00	
<input type="radio"/> 1 & 2 only		
Total	1.00 / 1.00	

Question 22

A system of fractional reserve banking works because:

Your Answer	Score	Explanation
<input type="radio"/> Banks can loan to one another if one gets into trouble		
<input checked="" type="radio"/> No more than a small amount of consumers are likely to come in for their cash	✓ 1.00	

☐ Banks can close temporarily if they run of cash

☐ Not sure

Total	1.00 /
	1.00

Question 23

The money multiplier equals:

Your Answer	Score	Explanation
<input type="radio"/> $1/RR - MPC$		
<input checked="" type="radio"/> $1/RR$	1.00	
<input type="radio"/> $1/MPS$		
<input type="radio"/> Not sure		
Total	1.00 / 1.00	

Question 24

If the money multiplier is 5, what must be the reserve requirement?

Your Answer	Score	Explanation
<input type="radio"/> 50%		
<input type="radio"/> 40%		
<input type="radio"/> 30%		

☐ 20% ✓ 1.00

☐ 10%

Total 1.00 / 1.00

Question 25

The money multiplier and reserve requirement are:

Your Answer	Score	Explanation
<input type="radio"/> Equal to one another		
<input checked="" type="radio"/> Inversely related	✓ 1.00	
<input type="radio"/> Directly related		
<input type="radio"/> Not sure		
Total	1.00 / 1.00	

Question 26

Which of these statements are true about bank runs?

Your Answer	Score	Explanation
<input type="radio"/> 1. Bank runs usually happen when people suddenly believe they may not be able to get their money out of their bank.		
<input type="radio"/> 2. When everybody tries to get their money at once during a bank run, the bank fails		

☐ 3. The fear that a bank may fail sets in motion a chain of events that can lead to the actual failure of a perfectly healthy bank

☒ All of the above

✓ 1.00

☐ 1 & 2 only

Total

1.00 /
1.00

Question 27

A major purpose of a nation's central bank is to be:

Your Answer

Score

Explanation

☐ The primary lender in the banking system

☒ The lender of last resort

✓ 1.00

☐ The lender of first resort

☐ Not sure

Total

1.00 / 1.00

Question 28

Which is the most important function of the U.S. Federal Reserve, America's central bank?

Your Answer

Score

Explanation

☐ Regulate financial institutions

<input checked="" type="radio"/> Conduct monetary policy	✓	1.00
<input type="radio"/> Issue currency		
<input type="radio"/> Not sure		
Total		1.00 / 1.00

Question 29

Which of these are objectives of monetary policy?

Your Answer	Score	Explanation
<input type="radio"/> 1. Provide a high level of employment		
<input type="radio"/> 2. Insure stable prices		
<input type="radio"/> 3. Provide moderate long-term interest rates		
<input checked="" type="radio"/> All of the above	✓	1.00
<input type="radio"/> 1 & 2 only		
Total		1.00 / 1.00

Question 30

If the Federal Reserve wants to increase the money supply, it can:

Your Answer	Score	Explanation
<input type="radio"/> Decrease the money multiplier		
<input checked="" type="radio"/> Decrease the reserve requirement	✓	1.00

☐ Increase the reserve requirement

☐ Not sure

Total

1.00 / 1.00

Question 31

If the Federal Reserve wants to decrease the money supply, it can:

Your Answer	Score	Explanation
<input type="radio"/> Increase the money multiplier		
<input checked="" type="radio"/> Increase the discount rate	✓ 1.00	
<input type="radio"/> Decrease the discount rate		
<input type="radio"/> Not sure		
Total	1.00 / 1.00	

Question 32

If the Federal Reserve wants to use open market operations to increase the money supply, it will:

Your Answer	Score	Explanation
<input type="radio"/> Sell corporate bonds		
<input checked="" type="radio"/> Buy government bonds	✓ 1.00	
<input type="radio"/> Sell government bonds		
<input type="radio"/> Not sure		

Total

1.00 / 1.00

Question 33

Suppose the Federal Reserve wants to close a recessionary gap of \$100 billion and the reserve requirement is 20%. How much money will it have to create to close this gap?

Your Answer	Score	Explanation
<input checked="" type="radio"/> Cannot be determined from the information	✓ 1.00	
<input type="radio"/> \$10 billion		
<input type="radio"/> \$20 billion		
<input type="radio"/> \$50 billion		
<input type="radio"/> Not sure		
Total	1.00 / 1.00	

Question 34

The monetary transmission mechanism involves which of the following to close a recessionary gap?

Your Answer	Score	Explanation
<input type="radio"/> 1. An increase in the money supply		
<input type="radio"/> 2. A fall in interest rates		
<input type="radio"/> 3. An increase in investment and consumption		
<input type="radio"/> 4. An increase in exports		

<input checked="" type="radio"/> All of the above	✓	1.00
<input type="radio"/> 1, 2 & 3 only		
Total		1.00 / 1.00

Question 35

In theory, which can be used with more precision to close a recessionary gap?

Your Answer	Score	Explanation
<input type="radio"/> Exchange rate policy		
<input checked="" type="radio"/> Fiscal policy	✓	1.00
<input type="radio"/> Monetary policy		
<input type="radio"/> Not sure		
Total		1.00 / 1.00

Question 36

Which school of macroeconomics supports an activist role for monetary policy?

Your Answer	Score	Explanation
<input type="radio"/> Monetarists		
<input checked="" type="radio"/> Keynesians	✓	1.00
<input type="radio"/> Classical economists		
<input type="radio"/> Not sure		

Total

1.00 / 1.00

Question 37

Which type of gap is monetary policy likely to be most effective at closing, according to the Keynesians?

Your Answer	Score	Explanation
<input type="radio"/> Stagflationary gap		
<input checked="" type="radio"/> Inflationary gap	✓ 1.00	
<input type="radio"/> Recessionary gap		
<input type="radio"/> Not sure		
Total	1.00 / 1.00	

Question 38

According to the Monetarists:

Your Answer	Score	Explanation
<input type="radio"/> 1. Inflation happens when the government prints too much money.		
<input type="radio"/> 2. Recession happens when the government prints too little money.		
<input type="radio"/> 3. Stagflation happens when the government refuses to print additional money		
<input type="radio"/> All of the above		

☐ 1 & 2 only

✓ 1.00

Total

1.00 /
1.00

Question 39

Milton Friedman believed that the Great Depression was caused by:

Your Answer**Score****Explanation**☐ 1. A dramatic cutback in government expenditures☒ 2. A dramatic cutback in the money supply

✓ 1.00

☐ 3. A dramatic rise in the tax rate☐ 4. All of the above☐ 5. 1 & 2 only

Total

1.00 / 1.00

Question 40

Stagflation is characterized by:

Your Answer**Score****Explanation**☐ 1. Inflation☐ 2. Recession☐ 3. A balanced budget

☐ All of the above☒ 1 & 2 only

1.00

Total

1.00 / 1.00

Question 41

How would you use fiscal policy to fight stagflation?

Your Answer**Score****Explanation**☐ 1. Increase government expenditures☐ 2. Raise taxes☐ 3. Cut taxes☐ All of the above☒ None of the above

1.00

Total

1.00 / 1.00

Question 42

If we want economic growth to proceed at a rate of 5%, the Monetarists would recommend:

Your Answer**Score****Explanation**☐ Not sure☐ Increasing the money supply by 5% less the rate of inflation

☐ Increasing the money supply by 5% plus the rate of inflation

☒ Increasing the money supply by 5% ✓ 1.00

Total 1.00 /
1.00

Question 43

To fight the stagflation of the late 1970s, Federal Reserve Chairman Paul Volcker:

Your Answer	Score	Explanation
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☐ 1. Dramatically raised interest rates

☐ 2. Induced a recession

☐ 3. Cut taxes

☐ All of the above

☒ 1 & 2 only ✓ 1.00

Total 1.00 / 1.00

