

Practice Problems for Quiz 4

ECO 1110 Current Economic Problems

01/29/22

1. A bank has a 5 percent reserve requirement, \$5,000 in deposits, and has loaned out all it can given the reserve requirement.

- a. It has \$25 in reserves and \$4,975 in loans.
- b. It has \$250 in reserves and \$4,750 in loans.**
- c. It has \$1,000 in reserves and \$4,000 in loans.
- d. None of the above is correct.

2. The primary difference between commodity money and fiat money is that

- a. commodity money is a medium of exchange but fiat money is not.
- b. fiat money is a medium of exchange but commodity money is not.
- c. commodity money has intrinsic value but fiat money does not.**
- d. fiat money has intrinsic value but commodity money does not.

3. The New York Federal Reserve Bank

- a. president always gets to vote at the FOMC meetings.
- b. conducts open market transactions.
- c. is one of 12 regional Federal Reserve Banks.
- d. All of the above are correct.**

4. If the reserve ratio is 5 percent, then \$500 of additional reserves can create up to

- a. \$10,500 of new money.
- b. \$10,000 of new money.**
- c. \$9,500 of new money.
- d. \$2,500 of new money.

5. Suppose the Federal Reserve purchases a \$1,000 government bond from you. If you deposit the entire \$1,000 in your bank, what is the total potential money supply as a result of the Federal Reserve's action if the reserve ratio is 20 per cent?

- a. \$4,000
- b. \$5,000**
- c. \$1,000

d. \$0

6. Other things the same, an increase in the interest rate makes the quantity of loanable funds demanded

- a. rise, and investment spending rise.
- b. rise, and investment spending fall.
- c. fall, and investment spending rise.
- d. **fall, and investment spending fall.**

7. Which of the following is not a function of money?

- a. **Hedging against inflation**
- b. Store of value
- c. Medium of exchange
- d. Unit of account

8. An example of fiat money is

- a. Cigarettes
- b. Gold coins
- c. **US Dollar Bills**
- d. Bitcoins

9. Sam, who is 55 years old and has been a steelworker for 30 years, is unemployed because the steel plant in his town closed and moved to Mexico. Sam is experiencing:

- a. cyclical unemployment.
- b. permanent unemployment.
- c. frictional unemployment.
- d. **structural unemployment.**

10. An example of the frictionally unemployed is a(n):

- a. autoworker who is temporarily laid off because of a decline in sales.
- b. geologist who is permanently laid off from an oil company due to a new technological advance.
- c. worker at a fast-food restaurant who quits work and attends college.
- d. **real estate agent who leaves a job in Texas and searches for a similar, higher paying job in California.**

11. A full-time student who did not have a job and was not looking for work would be categorized as

- a. employed
- b. unemployed

- c. **not in the labor force**
- d. marginally unemployed

12. In June 2009 the Bureau of Labor Statistics reported an adult population of 234.9 million, a labor force of 154 million and employment of 141.6 million. Based on these numbers the unemployment rate was

- a. 93.3/234.9.
- b. 12.4/234.9.
- c. 93.3/154.
- d. **12.4/154.**

13. Suppose all banks maintain a 100 percent reserve ratio. If an individual deposits \$1,000 of currency in a bank,

- a. the money supply increases by more than \$1,000.
- b. the money supply increases by less than \$1,000.
- c. the money supply decreases by less than \$1,000.
- d. **the money supply is unaffected.**

14. A reservation wage is the

- a. maximum wage the firm is willing to pay.
- b. tip necessary to get a waiter to reserve a table.
- c. **minimum wage the worker is willing to accept.**
- d. competitive equilibrium wage.

15. Leverage Ratio is

- a. **a ratio of assets to bank capital**
- b. a ratio of bank capital to loans
- c. a ratio of assets to deposits
- d. a ratio of loans to corporate debt