Question #1 of 101

Question ID: 1457068

Which one of the following Federal Reserve monetary policies, when pursued in line with the U.S. government's fiscal policies, would help increase aggregate demand during a period of high unemployment?

A) A decrease in the discount rate.

B) An increase in the reserve requirements for financial institutions.

C) The sale of bonds by the Fed.

Question #2 of 101

Question ID: 1456987

Assume the Federal Reserve purchases $1 billion of securities in the open market. What is the maximum increase in the money supply that can result from this action, if the required reserve ratio is 15%?

A) $1.00 billion.

B) $6.67 billion.

C) $850 million.

Question #3 of 101

Question ID: 1456992

The supply of money is primarily determined by:

A) inflation.

B) interest rates.

C) the monetary authorities.

Question #4 of 101

Question ID: 1457005

If a bank needs to borrow funds from the Federal Reserve to fund a temporary shortage in reserves, it would borrow funds at the:

A) federal funds rate.

B) prime rate.

C) discount rate.

Question #5 of 101

Question ID: 1456974

A distinction between fiscal policy and monetary policy is that fiscal policy:

A) concerns taxes and government spending, while monetary policy concerns the money supply.

B) is typically expansionary, while monetary policy is typically contractionary.

C) is aimed at promoting economic growth, while monetary policy is aimed at promoting price stability.

Question #6 of 101

Question ID: 1457042

Which of the following statements regarding the monetary policy transmission mechanism is *most* accurate?

A) Central banks can control long-term interest rates directly because decisions by consumers and businesses are based on these rates.

B) Central banks can control short-term interest rates by increasing the money supply to increase interest rates or by decreasing the money supply to decrease interest rates.

C) Central banks can control short-term interest rates directly, but long-term interest rates are beyond their control.

Question #7 of 101

Question ID: 1457046

Which of the following statements *best* explains how automatic stabilizers work? Even without a change in fiscal policy, automatic stabilizers tend to promote:

A) a budget surplus during a recession and a budget deficit during an inflationary expansion.

B) a budget deficit during a recession and a budget surplus during an inflationary expansion.

C) a budget deficit during a recession but do not promote a budget surplus during an inflationary expansion.

Question #8 of 101

Question ID: 1457014

Which of the following statements regarding U.S. Federal Reserve open market operations is *least accurate*?

A) If the Fed wants to stimulate the economy, it will sell Treasury securities to banks.

B) When the Fed buys Treasury securities, short-term interest rates will generally decrease.

C) When the Fed sells Treasury securities, excess reserves decrease.

Question #9 of 101

Question ID: 1457055

Assuming the federal government maintains a balanced budget, the *most likely* effects of a tax increase on government expenditures and real GDP are:

	Government Expenditures	Real GDP
A)	Decrease	Decrease
B)	Increase	Decrease
C)	Increase	Increase

Question #10 of 101

Question ID: 1456980

Which of the following is the *most* accurate definition of the velocity of money? The velocity of money is the:

A) GDP of a country divided by its price level.

B) money supply of a country divided by its price level.

C) GDP of a country divided by its money supply.

Question #11 of 101

Question ID: 1457065

A government that is implementing a contractionary fiscal policy is *most likely* to:

A) increase spending on public works.

B) decrease transfer payments to households.

C) decrease income tax rates.

Question #12 of 101

Question ID: 1457002

The Fisher effect holds that a nominal rate of interest equals a real interest rate:

A) plus the expected inflation rate.

B) minus the observed inflation rate.

C) plus the observed inflation rate.

Question #13 of 101

Question ID: 1462788

According to the quantity theory of money, the *most appropriate* means to combat inflation is to:

A) reduce the velocity of money.

B) increase the excess reserves of banks.

C) reduce the money supply.

Question #14 of 101

Question ID: 1457057

Assuming the economy currently is experiencing high inflation, an example of appropriate discretionary fiscal policy is:

A) increase the federal funds target rate.

B) reduce government expenditures on major government construction projects.

C) reduce the money supply.

Question #15 of 101

Question ID: 1456990

If households and firms are holding larger real money balances than they desire:

A) the interest rate is higher than its equilibrium rate.

B) the opportunity cost of holding money balances is likely to increase.

C) the central bank must sell securities to absorb the excess money supply and establish equilibrium.

Question #16 of 101

Question ID: 1457017

If the Federal Reserve wishes to lower market interest rates without changing the discount rate, it can:

A) buy Treasury securities.

B) increase bank reserve requirements.

C) raise the yield on Treasury securities.

Question #17 of 101

Question ID: 1457018

Which of the following policy tools is the *least likely* to be available to the U.S. Federal Reserve Board?

A) Requiring the banking system to tighten or loosen its credit policies.

B) Buying and selling Treasury securities in the open market.

C) Setting the discount rate at which banks can borrow from the Federal Reserve.

Question #18 of 101

Question ID: 1457009

Which of the following is *least likely* a function or objective of a central bank?

A) Issuing currency.

B) Keeping inflation within an acceptable range.

C) Lending money to government agencies.

Question #19 of 101

Question ID: 1456982

On January 5, the U.S. Federal Reserve (the Fed) bought $10,000,000 of U.S. Treasury securities in the open market. At the time, the reserve requirement was 25%, and all banks had zero excess reserves. What is the potential impact of the Fed's purchase on the U.S. money supply?

A) $10,000,000 increase.

B) $25,000,000 decrease.

C) $40,000,000 increase.

Question #20 of 101

Question ID: 1457041

The *most likely* reason for deflation to persist despite expansionary monetary policy is:

A) a liquidity trap.

B) bond market vigilantes.

C) inelastic demand for money.

Question #21 of 101

Question ID: 1457004

The primary objective of a central bank is typically to:

A) stabilize exchange rates.

B) achieve full employment.

C) control inflation.

Question #22 of 101

Question ID: 1462789

Assume that the required reserve ratio is 20%, and banks currently have no excess reserves. If the Federal Reserve then buys $100 million of Treasury bills from the banks, the money supply could potentially increase by:

A) $20 million.

B) $500 million.

C) $100 million.

Question #23 of 101

Question ID: 1457039

To determine whether monetary policy is expansionary or contractionary, an analyst should compare the central bank's policy rate to the:

A) neutral interest rate.

B) target inflation rate.

C) trend rate of real growth.

Question #24 of 101

Question ID: 1462790

Assume that the long-term equilibrium money market interest rate is 4% and the current money market interest rate is 3%. At this current rate of 3%, there will be an excess:

A) demand for money in the money market, and investors will tend to be net buyers of securities.

B) demand for money in the money market, and investors will tend to be net sellers of securities.

C) supply of money in the money market, and investors will tend to be net buyers of securities.

Question #25 of 101

Question ID: 1457020

If a central bank's targeted inflation rate is above the current rate, the central bank is *most likely* to:

A) increase the reserve requirement.

B) buy government securities.

C) increase the overnight lending rate.

Question #26 of 101

Question ID: 1457013

If a monetary policy is focused on combating inflation, which open market actions by the Federal Reserve will *most* effectively accomplish this?

A) Sell Treasury securities, causing aggregate demand to decrease.

B) Purchase Treasury securities, causing aggregate demand to decrease.

C) Sell Treasury securities, causing aggregate demand to increase.

Question #27 of 101

Question ID: 1457069

The government is reducing its spending to balance the budget, while the central bank is lowering its official policy rate. What will *most likely* be the combined effect on the economy?

A) The private sector as a percentage of GDP will increase.

B) The public and private sectors as a percentage of GDP will neither decrease nor increase.

C) The public sector as a percentage of GDP will increase.

Question #28 of 101

Question ID: 1457051

The crowding-out model implies that a:

A) budget surplus will retard aggregate demand and trigger an economic downturn.

B) budget deficit will increase the real interest rate and thereby retard private investment.

C) budget deficit will stimulate aggregate demand and trigger a multiplier effect which will lead to inflation.

Question #29 of 101

Question ID: 1456993

Which of the following statements about the demand for and supply of money is *least* accurate?

A) As the interest rate rises, the supply of money also rises.

B) As inflation rises, the demand for money by households and businesses also rises.

C) As gross domestic product rises, the demand for money balances also rises.

Question #30 of 101

Question ID: 1457030

Xanadu attempts to decrease its inflation rate by implementing contractionary monetary policy. Which of the following is *most likely* to be the long-run effect on Xanadu's trade balance as a result of the monetary policy change?

A) Improve.

B) Remain the same.

C) Worsen.

Question #31 of 101

Question ID: 1457060

The time it takes for policy makers to determine that the economy requires a fiscal policy action is *best* described as:

A) recognition lag.

B) action lag.

C) impact lag.

Question #32 of 101

Question ID: 1456983

When additional or excess reserves are injected into the U.S. banking system, the money supply can potentially increase by an amount equal to the additional excess reserves multiplied by which of the following?

A) Reciprocal of one minus the required reserve ratio.

B) Reciprocal of the required reserve ratio.

C) Required reserve ratio.

Question #33 of 101

Question ID: 1456975

When the central bank increases short-term interest rates, its monetary policy is *best* described as:

A) accommodative.

B) contractionary.

C) expansionary.

Question #34 of 101

Question ID: 1457027

If a country's economy is growing at an unsustainably rapid rate and the central bank decreases its target overnight interest rate, the country's:

A) expected rate of inflation is likely to decline.

B) inflation rate is likely to increase.

C) long-term rate of economic growth will increase.

Question #35 of 101

Question ID: 1457025

Contractionary monetary policy is *least likely* to decrease consumption spending by decreasing:

A) expectations for economic growth.

B) securities prices.

C) the foreign exchange value of the currency.

Question #36 of 101

Question ID: 1457033

Central banks that are able to define how inflation is computed and determine its desired level are *best described* as having:

A) operational independence.

B) target independence.

C) transparency.

Question #37 of 101

Question ID: 1456976

Promoting economic growth and price stability are the goals of:

A) monetary policy, but not fiscal policy.

B) fiscal policy, but not monetary policy.

C) both fiscal and monetary policy.

Question #38 of 101

Question ID: 1457036

A central bank follows an inflation targeting monetary policy. If the permissible band is plus-or-minus 2% around the target inflation rate, the central bank is *most likely* to choose a target inflation rate of:

A) 0%.

B) 1%.

C) 3%.

Question #39 of 101

Question ID: 1457047

The term "automatic stabilizers" refers to:

A) changes in taxes and expenditure programs legislators automatically enact in response to changes the level of economic activity in order to smooth economic cycles.

B) increases in transfer payments and decreases in tax revenues that result from an economic contraction without new legislation.

C) government expenditures and tax receipts that are required to balance over the course of the business cycle, although they may be out of balance in any single year.

Question #40 of 101

Question ID: 1456984

If a bank receives a deposit of $1 million in cash which has been held outside the banking system and the reserve requirement is 10%, the maximum increase in the money supply that could result is:

A) $100,000.

B) $900,000.

C) $10,000,000.

Question #41 of 101

Question ID: 1456996

If the money interest rate is measured on the y-axis and the quantity of money is measured on the x-axis, the money supply curve is:

A) downward sloping to the lower right.

B) upward sloping to the upper right.

C) vertical.

Question #42 of 101

Question ID: 1456979

When comparing a barter economy with an economy that uses money as a medium of exchange we would expect increased efficiencies due to a reduction in which of the following?

A) Nominal interest rates.

B) The need to specialize.

C) Transaction costs.

Question #43 of 101

Question ID: 1456978

Money functions as a store of value because:

A) money is accepted as the form of payment for goods.

B) money received for work or goods can be saved to purchase goods or services in the future.

C) prices of goods and services are expressed in units of money.

Question #44 of 101

Question ID: 1456991

Which of the following statements about the relationship between interest rates and the demand for and supply of money is *most* accurate? Interest rates affect:

A) the demand for money only.

B) both the demand for and supply of money.

C) the supply of money only.

Question #45 of 101

Question ID: 1457050

Arguments for being concerned about the size of a fiscal deficit *least likely* include:

A) a reduction in long-term economic growth.

B) Ricardian equivalence.

C) the crowding-out effect.

Question #46 of 101

Question ID: 1457012

An individual has just purchased a home by taking on a 30-year fixed rate mortgage. She would benefit *most* from this transaction if future inflation rates are:

A) exactly as anticipated.

B) lower than anticipated.

C) higher than anticipated.

Question #47 of 101

Question ID: 1457056

Robert Necco and Nelson Packard are economists at Economic Research Associates. ERA asks Necco and Packard for their opinions about the effects of fiscal policy on real GDP for an economy currently experiencing a recession. Necco states that real GDP is likely to increase if both government spending and taxes are increased by the same amount. Packard states that if both government spending and taxes are increased by the same amount, there is no expected net effect on real GDP.

Are the statements made by Necco and Packard CORRECT?

	Necco	Packard

A)	Correct	Incorrect
B)	Incorrect	Correct
C)	Incorrect	Incorrect

Question #48 of 101

Question ID: 1457064

An example of a contractionary fiscal policy change is a(n):

A) decrease in a fiscal surplus.

B) increase in a fiscal deficit.

C) increase in a fiscal surplus.

Question #49 of 101

Question ID: 1457062

Which of the following statements *best* explains the importance of the timing of changes in discretionary fiscal policy? Changes in discretionary fiscal policy must be timed properly if they are going to:

A) enable the government to control the money supply.

B) exert a stabilizing influence on an economy.

C) help the government achieve a balanced budget.

Question #50 of 101

Question ID: 1457063

The country of Zurkistan is experiencing both high interest rates and high inflation. The government passes laws that reduce government spending and increase taxes. It takes many months before interest rates fall and inflation is reduced. This is an example of:

A) impact lag in discretionary fiscal policy.

B) recognition lag in discretionary fiscal policy.

C) action lag and automatic stabilizers.

Question #51 of 101

Question ID: 1457003

The Fisher effect describes the relationship between:

A) expected and unexpected inflation.

B) money supply growth and actual inflation.

C) nominal and real interest rates.

Question #52 of 101

Question ID: 1456995

The demand for money curve represents the relationship between the quantity of money demanded and:

A) short-term interest rates.

B) the price level.

C) the quantity of money supplied.

Question #53 of 101

Question ID: 1457058

The time it takes for a fiscal policy action to affect the economy is *best* described as:

A) recognition lag.

B) action lag.

C) impact lag.

Question #54 of 101

Question ID: 1457044

Discretionary fiscal policy refers to:

A) buying or selling securities in the open market to influence interest rates.

B) active decisions regarding spending and taxing to affect economic growth.

C) government spending programs that counteract the business cycle without the intervention of policymakers.

Question #55 of 101

Question ID: 1456999

The three reasons for holding money are *most accurately* described as:

A) broad money demand, narrow money demand, and transaction demand.

B) narrow money demand, precautionary demand, and speculative demand.

C) transaction demand, precautionary demand, and speculative demand.

Question #56 of 101

Question ID: 1457045

Unemployment compensation is an example of:

A) a discretionary fiscal policy stabilizer.

B) an automatic monetary policy stabilizer.

C) an automatic fiscal policy stabilizer.

Question #57 of 101

Question ID: 1456997

Which of the following statements about the demand and supply of money is *most* accurate? People who are:

A) holding money when interest rates are lower will try to increase their money balances and, as a result, the supply of money increases.

B) holding money when interest rates are higher will try to reduce their money balances and, as a result, the demand for money decreases.

C) buying bonds to reduce their money balances will increase the demand for bonds with an associated increase in interest rates.

Question #58 of 101

Question ID: 1457061

Which of the following statements about achieving proper timing in fiscal policy is *least accurate*?

A) Improvements in quantitative methods have made the occurrence of recessions or expansions quite predictable.

B) Policy errors are inevitable due to unpredictable events.

C) There is usually a time lag between when a change in policy is needed and when the need is recognized by policy makers.

Question #59 of 101

Question ID: 1457066

The government budget deficit of Country M is increasing. At the same time, the government budget surplus of Country N is decreasing. Are the fiscal policies of these countries expansionary or contractionary?

A) Both are contractionary.

B) Both are expansionary.

C) One is expansionary and one is contractionary.

Question #60 of 101

Question ID: 1457001

According to the Fisher effect, which of the following interest rates includes a premium for the expected rate of inflation?

A) Both yields on short-term government debt and yields on long-term corporate debt.

B) Neither yields on short-term government debt nor yields on long-term corporate debt.

C) Yields on long-term corporate debt, but not yields on short-term government debt.

Question #61 of 101

Question ID: 1462794

The crowding-out effect suggests that:

A) greater government deficits will drive up interest rates, thereby reducing private investment.

B) as government spending increases, so will incomes and taxes, and the higher taxes will reduce both aggregate demand and output.

C) government borrowing will lead to an increase in private savings.

Question #62 of 101

Question ID: 1456973

Attempting to influence economic growth and inflation by changing tax rates and government spending is *best* described as:

A) a combination of fiscal and monetary policy.

B) monetary policy.

C) fiscal policy.

Question #63 of 101

Question ID: 1462791

The Federal Reserve has decided to increase the federal funds rate (the interest rate that banks charge each other for overnight loans). To implement this policy, the Federal Reserve will *most likely*:

A) sell government securities in the open market.

B) increase currency exchange rates (cause domestic currency to appreciate).

C) set a lower price on Treasury bills and notes that it is auctioning.

Question #64 of 101

Question ID: 1457007

Which of the following is *least likely* to be a function of the central bank?

A) Issue currency.

B) Regulate the banking system.

C) Collect tax payments.

Question #65 of 101

Question ID: 1457028

Silvano Jimenez, an analyst at Banco del Rey, is reviewing recent actions taken by the U.S. Federal Reserve (the Fed) in setting monetary policy. Recently, the Fed decided to increase the money supply, which has resulted in a decrease in real interest rates. At a staff meeting, Jimenez brings this matter to the attention of his colleagues and makes the following statements:

Statement 1: Although the money supply increase has led to a decrease in real interest rates, we should begin to see U.S. investors decrease their investments abroad and the U.S. dollar will appreciate in the foreign exchange market.

Statement 2: The Fed's increase in the money supply will increase the amount of imports into the U.S.

Are Statement 1 and Statement 2 as made by Jimenez CORRECT?

	Statement 1	Statement 2
A)	Incorrect	Correct
B)	Correct	Incorrect
C)	Incorrect	Incorrect

Question #66 of 101

Question ID: 1457008

Central banks are *most likely* to pursue a target inflation rate:

A) between 0% and 2%.

B) between 2% and 3%.

C) equal to 0%.

Question #67 of 101

Question ID: 1456981

The amount of money a commercial bank has available to lend is known as:

A) fractional reserves.

B) excess reserves.

C) required reserves.

Question #68 of 101

Question ID: 1457031

A central bank has operational independence if it can independently determine:

A) the horizon over which to achieve its inflation target.

B) the policy rate.

C) how inflation is calculated.

Question #69 of 101

Question ID: 1457032

What are the three essential qualities an effective central bank should possess?

A) Independence, credibility, and transparency.

B) Transparency, independence, and consistency.

C) Credibility, relevance, and reliability.

Question #70 of 101

Question ID: 1457038

An analyst has determined the projected trend rate of real GDP growth is 2.5% and the central bank's inflation target is 2.5%. If the central bank policy rate is 5.0%, monetary policy is *most likely*:

A) expansionary.

B) neutral.

C) contractionary.

Question #71 of 101

Question ID: 1457023

If the U.S. Federal Reserve decides to decrease the money supply, which of the following is *most likely* to occur in the short run?

A) A decrease in the unemployment rate.

B) An increase in the real rate of interest.

C) An increase in the velocity of money similar to decrease in the money supply.

Question #72 of 101

Question ID: 1462795

Arguments for being concerned with the size of a fiscal deficit relative to GDP *least likely* include:

A) a likely need for higher future taxes.

B) higher interest rates due to government borrowing.

C) a high proportion of government debt owed to the country's citizens.

Question #73 of 101

Question ID: 1457035

If a central bank implements an exchange rate targeting policy successfully, the country's inflation rate is *most likely* to be:

A) the same as that of the target currency.

B) greater than that of the target currency.

C) less than that of the target currency.

Question #74 of 101

Question ID: 1462792

The velocity of transactions in an economy has been increasing rapidly for the past seven years. Over the same time period, the economy has experienced minimal growth in real output. According to the equation of exchange, inflation over the last seven years has:

A) been minimal, consistent with the slow growth in real output.

B) increased more than the growth in the money supply.

C) increased at a rate similar to the growth rate in the money supply.

Question #75 of 101

Question ID: 1457059

The time it takes for policy makers to enact a fiscal policy action is *best* described as:

A) implementation lag.

B) action lag.

C) legislative lag.

Question #76 of 101

Question ID: 1457070

Which of the following policy combinations would *most likely* lead to private sector growth and a decreasing government share of GDP?

A) Contractionary fiscal policy and expansionary monetary policy.

B) Contractionary fiscal policy and contractionary monetary policy.

C) Expansionary fiscal policy and contractionary monetary policy.

Question #77 of 101

Question ID: 1457040

An economy's long-term trend rate of real GDP growth is 3% and the central bank's target inflation rate is 2%. If the policy rate is 6%, monetary policy is:

A) contractionary.

B) expansionary.

C) neutral.

Question #78 of 101

Question ID: 1457006

A country is experiencing a core inflation rate of 7% during a recessionary period of real GDP growth. If the central bank has a single mandate to achieve price stability and uses inflation targeting with an acceptable range of zero to 4%, its monetary policy response is *most likely* to decrease:

A) GDP growth in the short run.

B) short-term interest rates.

C) the foreign exchange value of the country's currency.

Question #79 of 101

Question ID: 1457021

A central bank that wants to increase short-term interest rates is *most likely* to:

A) issue long-term bonds.

B) sell government securities.

C) decrease bank reserve requirements.

Question #80 of 101

Question ID: 1456985

Banks choose to hold a higher percentage of deposits as reserves because they believe general business conditions in the economy are subject to greater uncertainty. If all else is held constant, what is the *most likely* impact of this action?

A) The money supply will decrease.

B) There will be no effect on the money supply.

C) The money supply will increase during a period of inflation, but will decrease if the economy goes into a recession.

Question #81 of 101

Question ID: 1457049

An argument against being concerned with the size of a fiscal deficit is that a deficit can:

A) cause government borrowing to crowd out private borrowing.

B) aid in increasing GDP and employment if the economy is operating at less than potential GDP.

C) lead to higher future taxes that will increase government revenues.

Question #82 of 101

Question ID: 1456994

Which of the following statements regarding money demand and supply is *least* accurate?

A) As the Fed reduces the money supply, short-term interest rates decrease.

B) The supply of money is determined by the monetary authority and is not affected by changes in interest rates.

C) The supply curve for money is vertical.

Question #83 of 101

Question ID: 1456998

Which of the following is determined by the equilibrium between the demand for money and the supply of money?

A) Interest rate.

B) Inflation rate.

C) Money supply.

Question #84 of 101

Question ID: 1457037

Which of the following is currently the most-used target for central banks?

A) Interest rate targeting.

B) Money supply targeting.

C) Inflation targeting.

Question #85 of 101

Question ID: 1462793

A central bank is said to have credibility if:

A) it issues inflation reports monthly.

B) economic actors base decisions on the central bank's stated inflation targets.

C) it determines both the policy rate and the method for computing the inflation rate.

Question #86 of 101

Question ID: 1457043

Which of the following conditions is difficult for monetary policy to address because a central bank cannot reduce its nominal policy rate much below zero?

A) Deflation.

B) Inflation.

C) Stagflation.

Question #87 of 101

Question ID: 1456986

Which of the following relationships in regard to the quantity theory of money is *least accurate*?

A) Money × Velocity = Money Supply × Velocity.

B) Nominal GDP = Money Supply × Velocity = Price × Real Output.

C) Nominal GDP = Price × Money Supply.

Question #88 of 101

Question ID: 1457011

Compared to the costs of inflation that is unexpected, costs of inflation that is correctly anticipated are *most likely* to be:

A) equally severe.

B) less severe.

C) more severe.

Question #89 of 101

Question ID: 1456971

Policies used with the goal of maintaining stable prices and producing economic growth include:

A) both fiscal policy and monetary policy.

B) monetary policy only.

C) fiscal policy only.

Question #90 of 101

Question ID: 1457067

Which of the following fiscal and monetary policy scenarios is *most likely* to increase the size of the public sector relative to the private sector?

A) Contractionary fiscal and monetary policy.

B) Expansionary fiscal policy and contractionary monetary policy.

C) Expansionary monetary policy and contractionary fiscal policy.

Question #91 of 101

Question ID: 1456972

Monetary policy is *most accurately* described as actions that influence economic activity by increasing or decreasing:

A) currency exchange rates.

B) the supply of money and credit.

C) tax rates on income and consumption.

Question #92 of 101

Question ID: 1457019

Central banks pursuing expansionary policies may:

A) decrease the policy rate and make open market purchases of securities.

B) decrease the policy rate and make open market sales of securities.

C) increase the policy rate and make open market purchases of securities.

Question #93 of 101

Question ID: 1457016

When the Federal Reserve sells government securities on the open market, bank reserves are:

A) decreased, which reduces the amount of money banks are able to lend, causing a decrease in the federal funds rate.

B) decreased, which reduces the amount of money banks are able to lend, causing an increase in the federal funds rate.

C) increased, which increases the amount of money banks are able to lend, causing a decrease in the federal funds rate.

Question #94 of 101

Question ID: 1457029

Which of the following is the *most likely* result of a central bank's shift to an expansionary monetary policy?

A) Domestic currency appreciates.

B) Exports increase.

C) Interest rates increase.

Question #95 of 101

Question ID: 1457015

Assume the U.S. economy is undergoing a recession. In its efforts to stimulate the economy by trying to influence short-term interest rates the Fed is *most likely* to take which two actions?

A) Buy Treasury securities and decrease bank reserve requirements.

B) Sell Treasury securities and decrease bank reserve requirements.

C) Sell Treasury securities and increase bank reserve requirements.

Question #96 of 101

Question ID: 1456970

Policies that can be used as tools for redistribution of wealth and income include:

A) both fiscal policy and monetary policy.

B) fiscal policy only.

C) monetary policy only.

Question #97 of 101

Question ID: 1456977

Money serves as a unit of account because:

A) money is accepted as the form of payment for goods.

B) money received for work or goods can be saved to purchase goods or services in the future.

C) prices of goods and services are expressed in units of money.

Question #98 of 101

Question ID: 1457024

The open market sale of Treasury securities by the Federal Reserve is *least likely* to result in:

A) increased longer-term interest rates.

B) a decreased rate of inflation.

C) increased exports of U.S. goods.

Question #99 of 101

Question ID: 1457048

When an economy dips into a recession, automatic stabilizers will tend to alter government spending and taxation so as to:

A) reduce the budget deficit (or increase the surplus).

B) enlarge the budget deficit (or reduce the surplus).

C) reduce interest rates, thus stimulating aggregate demand.

Question #100 of 101

Question ID: 1457010

Frequent changes in advertised prices are one of the costs of:

A) expected inflation only.

B) both expected and unexpected inflation.

C) unexpected inflation only.

Question #101 of 101

Question ID: 1457052

Arguments against being concerned about the size of a fiscal deficit include:

A) higher future taxes.

B) Ricardian equivalence.

C) the crowding-out effect.