

Chapter 24 Practice Questions

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1. Money can take the form of any one of the following *except*
 - A) a savings deposit.
 - B) a chequing deposit.
 - C) coins.
 - D) a credit card.
 - E) Bank of Canada notes.
2. Which one of the following items is *not* included in the M1 definition of money?
 - A) currency outside banks.
 - B) personal chequable deposits
 - C) non-personal chequable deposits
 - D) fixed term deposits
 - E) Neither B nor D are part of M1.
3. Using a credit card can best be likened to
 - A) writing a cheque on your chequable deposit.
 - B) using any other form of money, because you can immediately take the goods you purchase home.
 - C) withdrawing money from a savings account.
 - D) a barter exchange.
 - E) taking out a loan.
4. Consider the following data from the economy of Adanac:
 - Currency outside banks: \$15 billion
 - Personal and non-personal chequable deposits: \$40 billion
 - Personal non-chequable deposits: \$50 billion
 - Non-personal non-chequable deposits: \$125 billion
 - Fixed term deposits: \$200 billion

The value of M1 is \$_____ billion and the value of M2 is \$_____ billion.

A) 55; 430 B) 105; 230 C) 60; 430 D) 55; 230 E) 110; 235
5. The Bank of Canada does *not* do which of the following?
 - A) Supervise chartered banks.
 - B) Hold government of Canada securities.
 - C) Lend money to the public.
 - D) Issue bank notes.
 - E) Act as a lender of last resort to banks.

6. The Monetary Base consists of the sum of
- A) Bank of Canada notes held outside the Bank of Canada, the desired reserves of chartered banks, and coins held by banks.
 - B) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks.
 - C) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.
 - D) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.
 - E) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and notes and coins held by banks.
7. A bank can create money by
- A) increasing its reserves.
 - B) printing more cheques.
 - C) selling some of its securities.
 - D) lending its excess reserves.
 - E) converting reserves into securities.
8. The money creation process begins when
- A) bank deposits increase.
 - B) banks lend reserves.
 - C) banks have excess reserves.
 - D) the quantity of money increases.
 - E) desired reserves increase because of an increase in deposits.
9. The quantity of money that the banking system can create is limited by
- A) the monetary base, desired reserves, and desired currency holdings.
 - B) the quantity of bank notes released by the Bank of Canada.
 - C) bank managers' decisions.
 - D) the credit ratings of the consumers who are applying for loans.
 - E) the number of consumers who apply for loans.
10. The opportunity cost of holding money increases when the
- A) purchasing power of money increases.
 - B) income of consumers decreases.
 - C) price of goods and services decrease.
 - D) income of consumers increases.
 - E) nominal interest rate rises.

Use the figure below to answer the following questions.

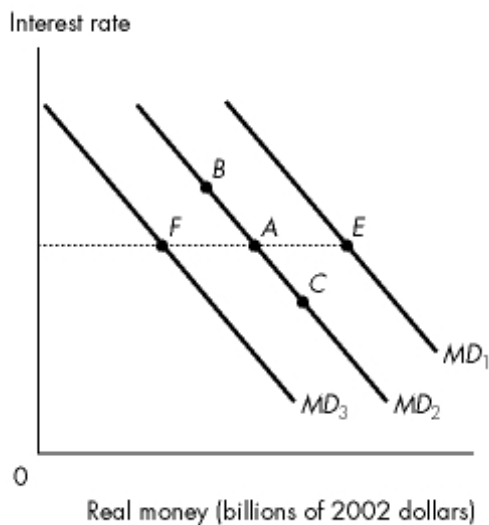


Figure 24.4.2

11. Refer to Figure 24.4.2. Which one of the following best describes the response to an increase in real GDP?
 - A) Movement from A to C
 - B) Movement from A to F
 - C) Movement from E to A
 - D) Movement from A to E
 - E) Movement from B to A
12. Refer to Figure 24.4.2. Which one of the following best describes the response to a decrease in the market price of bonds?
 - A) A movement from A to F
 - B) A movement from A to B
 - C) A movement from A to C
 - D) A movement from E to A
 - E) A movement from A to E
13. Refer to Figure 24.4.2. Which one of the following best describes the response to a rise in the price level?
 - A) A movement from A to F
 - B) A movement from A to B
 - C) A movement from A to E
 - D) A movement from A to C
 - E) none of the above

14. If the interest rate is above the equilibrium rate, how is equilibrium achieved in the money market?
- A) People buy bonds to get rid of their excess money, raising the price of bonds and lowering the interest rate.
 - B) People sell bonds to get rid of their excess money, lowering the price of bonds and lowering the interest rate.
 - C) People sell bonds to get rid of their excess money, raising the price of bonds and lowering the interest rate.
 - D) People buy goods to get rid of their excess money, lowering the price of goods and lowering the interest rate.
 - E) People sell goods to get rid of their excess money, lowering the price of goods and lowering the interest rate.
15. According to the quantity theory of money, an increase in the quantity of money will increase the price level
- A) but have no effect on real GDP or the velocity of circulation.
 - B) but have no effect on real GDP and will decrease the velocity of circulation.
 - C) and increase real GDP but decrease the velocity of circulation.
 - D) and decrease real GDP and increase the velocity of circulation.
 - E) and increase real GDP and the velocity of circulation.
16. Suppose that the desired reserve ratio is 0.25 and the currency drain ratio is 0.25. The money multiplier is
- A) 1.71. B) 2.08. C) 1.40. D) 2.50. E) 2.40.
17. The money multiplier can also be calculated as _____, where a is the currency drain ratio and b is the desired reserve ratio.
- A) $(1 + b) \div (a + b)$
 - B) $(1 + a) \div (a + b)$
 - C) $a \div (a + b)$
 - D) $(a + b) \div (1 + a)$
 - E) $(a + b) \div (1 + b)$