CHAPTER 5

THE MONETARY SYSTEM

1. Money:
   a. Is a kind of asset can be used to conduct transactions.
   b. Includes paper bills that the public holds outside the monetary system
   c. Includes demand deposits in commercial banks
   d. Is a mean to preserve value and an unit of account
   e. All are correct
2. The function of storing value of money can be described specifically as:
   a. A convention measure to value
   b. A guarantee for the accidental coincidence of demands
   c. An effective mean to sign long-term contracts
   d. A mean that can preserve and make an exchange for another goods later
   e. A unit of exchanging that can be widely accepted
3. Which following account belongs to M2 but M1?
   a. Currency
   b. Demand deposits of the private sector in commercial banks
   c. Saving deposits of individuals in commercial banks
4. Suppose that a person transfers 1.000.000VND from saving deposit to demand deposit. At that time:
   a. Both M1 and M2 decrease
   b. M1 falls and M2 rises
   c. Both M1 and M2 rise
   d. M1 falls, M2 remains
   e. M1 rises, M2 remains
5. A bank can create money by:
   a. Increasing preserves
   b. Loan a part of the amount of money it raises
   c. Raising more saving deposits
   d. Selling bonds to the Central Bank
6. A cut down on required reserves established by the Central Bank will:
   a. Not affect commercial banks which do not have redundant reserves
   b. Lead to the expansion of saving deposits in commercial banks
   c. Allow commercial banks to reduce reserves and make more loans
   d. Not above answers

7. If all commercial banks do not make a loan of all the amount of money they raise, the money multiplier will be:
    a. O
    b. 1
    c. 10
    d. 100
    e. ∞
8. Which of the following method will increase the money supply the most?
    a. Government sells bonds to the public
    b. Government sells bonds to the Central bank
    c. Government increases tax
    d. Government sell bonds to commercial banks
    e. b & d are correct
9. Open- market operations:
    a. Involve Government's purchase and sale of company bonds
    b. Can make a change in deposits in commercial banks, but the money supply
    c. Involve the Central Bank's purchase and sale of Government bonds
    d. Involve the fact that Central Bank make a loan to commercial banks
    e. Involve the fact that Central Bank controls the exchange rate
10. Following is 3 channels that the Central Bank can use to reduce the money supply:
    a. Sell Government bonds, reduce required reserves and reduce discount rates
    b. Sell Government bonds, reduce required reserves and increase discount rates
    c. Sell Government bonds, increase required reserves and decrease discount rates
    d. Sell Government bonds, increase required reserves and increase discount rates
11. Which following account can the Central Bank controls most effectively?
    a. Money supply
    b. Money base
    c. Money multiplier
    d. Redundant reserves that commercial banks hold
12. Which of the following function is NOT functions of the Central Bank?
    a. Keep deposits of commercial banks
    b. Plays a role as "the final loaner" to commercial banks
    c. Seeking profit
    d. Adjust the market interest rate
13. When the Central Bank buy Government bonds will:
    a. Make reserves of commercial banks fall

b. Make reserves of commercial banks increase and therefore, expand deposits commercial banks loan
c. Make the interest rate increase
d. Be the best tool to prevent the inflation

14. People hold currency mainly because of:
    a. Transactions
    b. Preserve
    c. Speculation
    d. The interest
    e. Decrease in risks of investment portfolio

15. In the system of commercial banks, if the reserve ratio is 100%:
    a. Banks do not receive deposits
    b. Banks do not affect the money supply
    c. The amount of loans is the only asset of banks
    d. All are correct

16. In a system of 100-percent-reserve banking,

a. banks do not make loans.
b. currency is the only form of money.
c. deposits are banks' only assets.
d. All of the above are correct.

17. On a T-account for a bank,

a. reserves and deposits are both assets.
b. reserves are assets and deposits are liabilities.
c. deposits are assets and reserves are liabilities.
d. reserves and deposits are both liabilities.

18. If a bank has a reserve ratio of 8 percent, then

a. government regulation requires the bank to use at least 8 percent of its deposits to make loans.
b. the bank's ratio of loans to deposits is 8 percent.
c. the bank keeps 8 percent of its deposits as reserves and loans out the rest.
d. the bank keeps 8 percent of its assets as reserves and loans out the rest.

19. Suppose that banks desire to hold no excess reserves, the reserve requirement is 5 percent, and a bank receives a new deposit of $1,000. This bank

a. will increase its required reserves by $50.
b. will initially see its total reserves increase by $1,000.
c. will be able to make a new loan of $950.
d. All of the above are correct.

20. Suppose banks desire to hold no excess reserves. If the reserve requirement is 15 percent and if a bank receives a new deposit of $10, then this bank

a. must increase its required reserves by $10.

b. will initially see its total reserves increase by $15.

c. will be able to make new loans up to a maximum of $8.50.

d. All of the above are correct.

Table 29-2. An economy starts with $10,000 in currency. All of this currency is deposited into a single bank, and the bank then makes loans totaling $9,250. The T-account of the bank is shown below.

Assets		Liabilities	
Reserves	$750	Deposits	$10,000
Loans	9,250		

21. Refer to Table 29-2. This bank operates in a

a. system of 0-percent-reserve banking.

b. system of 100-percent-reserve banking.

c. system of Federal-Reserve banking.

d. fractional-reserve banking system.

22. Refer to Table 29-2. The bank's reserve ratio is

a. 7.50 percent.

b. 8.12 percent.

c. 92.50 percent.

d. 100 percent.

23. Refer to Table 29-2. If all banks in the economy have the same reserve ratio as this bank, then the value of the economy’s money multiplier is

a. 1.33.

b. 10.00.

c. 10.81.

d. 13.33.

24. Refer to Table 29-2. If all banks in the economy have the same reserve ratio as this bank, then an increase in reserves of $150 for this bank has the potential to increase deposits for all banks by

a. $866.67.

b. $1,666.67.

c. $2,000.00.

d. an infinite amount.

25. Which of the following is correct? When there is a reserve requirement, banks

a. must hold exactly the required quantity of reserves.

b. may hold more than, but not less than, the required quantity of reserves.

c. may hold less than, but not more than, the required quantity of reserves.

d. must seek the Fed’s permission whenever they wish to expand or contract their loans to customers.

26. A bank loans Kellie's Print Shop $350,000 to remodel a building near campus to use as a new store. On their respective balance sheets, this loan is

a. an asset for the bank and a liability for Kellie's Print Shop. The loan increases the money supply.

b. an asset for the bank and a liability for Kellie's Print Shop. The loan does not increase the money supply.

c. a liability for the bank and an asset for Kellie's Print Shop. The loan increases the money supply.

d. a liability for the bank and an asset for Kellie's Print Shop. The loan does not increase the money supply.

27. Suppose a bank’s reserve ratio is 5 percent and the bank has $1,000 in deposits. Its reserves amount to

a. $5.

b. $50.

c. $95.

d. $950.

28. Suppose a bank’s reserve ratio is 6.5 percent and the bank has $1,950 in reserve. Its deposits amount to

a. $62.25.

b. $126.75.

c. $22,500.00

d. $30,000.00.

29. The manager of the bank where you work tells you that your bank has $5 million in excess reserves. She also tells you that the bank has $300 million in deposits and $255 million dollars in loans. Given this information you find that the reserve requirement must be

a. 50/255.

b. 40/255.

c. 50/300.

d. 40/300.

30. The money supply increases when the Fed

a. buys bonds. The increase will be larger, the smaller is the reserve ratio.

b. buys bonds. The increase will be larger, the larger is the reserve ratio.

c. sells bonds. The increase will be larger, the smaller is the reserve ratio.

d. sells bonds. The increase will be larger, the larger is the reserve ratio.

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1e 2d 3c 4e 5b 6c 7b 8b 9c 10d 11b 12c 13b 14a 15b 16a 17b 18c 19d 20c

21d 22a 23d 24c 25b 26a 27b 28d 29d 30a.