Duration: 50 minutes

Name: _________________________ Student ID: _____________________

Group No: ______________________

Multiple Choice Questions (4 points each, total 120 points)

1. The manager of the bank where you work tells you that the bank has $300 million in deposits and $255 million dollars in loans. If the reserve requirement is 8.5 percent, how much is the bank holding in excess reserves?
   A. $15 million
   B. $19.5 million
   C. $25.5 million
   D. $0 million

2. 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.

3. If the reserve requirement is 10 percent, which of the following pairs of changes would both allow a bank to lend out an additional $10,000?
   A. the Fed buys a $10,000 bond from the bank or someone deposits $10,000 in the bank
   B. the Fed buys a $10,000 bond from the bank or the Fed lends the bank $10,000
   C. the Fed sells a $10,000 bond to the bank or someone deposits $10,000 in the bank
   D. the Fed sells a $10,000 bond to the bank or the Fed lends the bank $10,000

4. 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.

5. The banking system currently has $200 billion of reserves, none of which are excess. People hold only deposits and no currency, and the reserve requirement is 4 percent. If the Fed raises the reserve requirement to 10 percent and at the same time buys $50 billion worth of bonds, then by how much does the money supply change?
   A. It rises by $600 billion.
   B. It rises by $125 billion.
   C. It falls by $2,500 billion.
   D. None of the above is correct.

6. If the public decides to hold less currency and more deposits in banks, bank reserves
   A. decrease and the money supply eventually decreases.
   B. decrease but the money supply does not change.
   C. increase and the money supply eventually increases.
   D. increase but the money supply does not change.
7. If people decide to hold less currency relative to deposits, the money supply
   A. falls. The Fed could lessen the impact of this by buying Treasury bonds.
   B. falls. The Fed could lessen the impact of this by selling Treasury bonds.
   C. rises. The Fed could lessen the impact of this by buying Treasury bonds.
   D. rises. The Fed could lessen the impact of this by selling Treasury bonds

8. Which of the following is correct?
   A. The Fed can control the money supply precisely.
   B. The amount of money in the economy does not depend on the behavior of depositors.
   C. The amount of money in the economy depends in part on the behavior of banks.
   D. None of the above is correct.

9. To increase the money supply, the Fed could
   A. sell government bonds.
   B. auction more loans to banks.
   C. increase the reserve requirement.
   D. None of the above is correct.

10. An increase in the money supply might indicate that the Fed had
    A. purchased bonds to increase banks reserves.
    B. purchased bonds to decrease banks reserves.
    C. sold bonds to increase banks reserves.
    D. sold bonds to decrease banks reserves.

11. Deflation
    A. increases incomes and enhances the ability of debtors to pay off their debts.
    B. increases incomes and reduces the ability of debtors to pay off their debts.
    C. decreases incomes and enhances the ability of debtors to pay off their debts.
    D. decreases incomes and reduces the ability of debtors to pay off their debts.

12. If the price level increased from 120 to 130, then what was the inflation rate?
    A. 1.1 percent.
    B. 7.7 percent.
    C. 10.0 percent.
    D. 8.3 percent.

13. The term hyperinflation refers to
    A. the spread of inflation from one country to others.
    B. a decrease in the inflation rate.
    C. a period of very high inflation.
    D. inflation accompanied by a recession.

14. If $P$ denotes the price of goods and services measured in terms of money, then
    A. $1/P$ represents the value of money measured in terms of goods and services.
    B. $P$ can be regarded as the “overall price level.”
    C. an increase in the value of money is associated with a decrease in $P$.
    D. All of the above are correct.

15. The supply of money increases when
    A. the price level falls.
    B. the interest rate increases.
    C. the central bank makes open-market purchases.
    D. money demand increases

16. When the Consumer Price Index falls from 110 to 100
    A. there is inflation of 9.1% and the value of money decreases.
    B. there is deflation of 9.1% and the value of money increases.
    C. there is deflation of 10% and the value of money increases.
    D. there is inflation of 10% and the value of money decreases.

17. When the money market is drawn with the value of money on the vertical axis, as the price level decreases,
the value of money
A. increases, so the quantity of money demanded increases.
B. increases, so the quantity of money demanded decreases.
C. decreases, so the quantity of money demanded decreases.
D. decreases, so the quantity of money demanded increases.

18. Refer to Figure above. If the money supply is $MS_2$ and the value of money is 2, then there is an excess
A. demand for money that is represented by the distance between points A and C.
B. demand for money that is represented by the distance between points A and B.
C. supply of money that is represented by the distance between points A and C.
D. supply of money that is represented by the distance between points A and B.

19. Monetary neutrality implies that an increase in the quantity of money will
A. increase employment.
B. increase the price level.
C. increase the incentive to save.
D. increase the real interest rate.

20. If $M = 3,000$, $P = 2$, and $Y = 6,000$, what is velocity?
A. 1/4
B. 2
C. 4
D. 1

21. Oceania buys $100 of wine from Escudia and Escudia buys $80 of wool from Oceania. Suppose this is the only trade that these countries do. What are the net exports of Oceania and Escudia, in that order?
A. $80 and $100
B. $-20 and $20
C. $20 and -$20
D. None of the above is correct.

22. If U.S. exports are $150 billion and U.S. imports are $100 billion, which of the following is correct?
A. The U.S. has a trade surplus of $100 billion.
B. The U.S. has a trade surplus of $50 billion.
C. The U.S. has a trade deficit of $100 billion.
D. The U.S. has a trade deficit of $50 billion.

23. If a country has $2.4 billion of net exports and purchases $4.8 billion of goods and services from foreign countries, then it has
A. $7.2 billion of exports and $4.8 billion of imports.
B. $7.2 billion of imports and $4.8 billion of exports.
C. $4.8 billion of exports and $2.4 billion of imports.
D. $4.8 billion of imports and $2.4 billion of exports.
24. If U.S. consumers increase their demand for apples from New Zealand, then other things the same New Zealand’s
   A. imports and net exports rise.
   B. imports rise and net exports fall.
   C. exports and net exports rise.
   D. exports rise and net exports fall.

25. If a country had a trade surplus of $50 billion and then its exports rose by $30 billion and its imports rose by $20 billion, its net exports would now be
   A. $0 billion.
   B. $20 billion.
   C. $40 billion.
   D. $60 billion.

26. According to purchasing-power parity, if the same basket of goods costs $100 in the U.S. and 50 pounds in Britain, then what is the nominal exchange rate?
   A. 2 pounds per dollar
   B. 1 pound per dollar
   C. 1/2 pound per dollar
   D. None of the above is correct

27. The nominal exchange rate is about 2 Aruban florin per dollar. If a basket of goods in the United States costs $40, how many florins must a basket of goods in Aruba cost for purchasing-power parity to hold?
   A. 20 florin
   B. 40 florin
   C. 60 florin
   D. 80 florin

28. A basket of goods costs $800 in the U.S. In Belgium the basket of goods costs 640 euros and the exchange rate is .80 euros per U.S. dollar. In Japan the basket of goods costs 90,000 yen and the exchange rate is 90 yen per dollar. Which country has purchasing-power parity with the U.S.?
   A. both Belgium and Japan
   B. Belgium but not Japan
   C. Japan but not Belgium
   D. neither Belgium nor Japan

29. The price of a basket of goods is $2000 in the U.S. If purchasing-power parity holds, and the dollar buys two units of some country’s currency, then how many units of foreign currency does the same basket of goods cost in that country?
   A. 4000
   B. 2000
   C. 1000
   D. None of the above are correct.

30. A tall latte in China costs 30 yuan. The same latte in the U.S. costs 4 dollars. If the exchange rate is 6.5 yuan per dollar then, the real exchange rate is
   A. 0.867 so the good is more expensive in the U.S.
   B. **0.867 so the good is more expensive in China.**
   C. 1.154 so the god is more expensive in the U.S.
   D. 1.154 so the good is more expensive in China.