

Chapter 27 Monetary System Practice Test

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. Fiat currency
 - a. is used as a medium of exchange.
 - b. is equivalent to wealth.
 - c. is backed by gold.
 - d. Both b and c are correct.
- _____ 2. Some economies used salt as money. For such economies salt
 - a. had no intrinsic value.
 - b. had an intrinsic value and served as a medium of exchange.
 - c. served as fiat money.
 - d. Both b and c are correct.
- _____ 3. Since the U.S. government has decreed that U.S. currency is legal tender,
 - a. people are more likely to accept the dollar as a medium of exchange.
 - b. the government must hold enough gold to redeem all currency.
 - c. people may not make trades with anything else.
 - d. All of the above are correct.
- _____ 4. Checking accounts include
 - a. currency.
 - b. demand deposits.
 - c. savings accounts.
 - d. None of the above is a checking account.
- _____ 5. Credit cards are
 - a. used as a method of payment.
 - b. part of the M1 money supply.
 - c. equivalent to debit cards.
 - d. a method of deferring payment.
- _____ 6. Credit cards
 - a. are part of the money supply.
 - b. defer payments.
 - c. are a store of value.
 - d. have led to wider use of currency.
- _____ 7. The Federal Reserve does all except which of the following?
 - a. make loans to individuals
 - b. control the supply of money
 - c. control the value of money
 - d. regulate the banking system
- _____ 8. When the Fed wants to change the money supply, it most frequently
 - a. conducts open market operations.
 - b. changes the discount rate.
 - c. changes the reserve requirement.

d. issues Federal Reserve notes.

- _____ 9. If the reserve ratio is 10 percent and a bank receives a new deposit of \$10, this bank
- a. must increase required reserves by \$1.
 - b. will initially see its total reserves increase by \$1.
 - c. will be able to make new loans up to a maximum of \$1.
 - d. All of the above are true.

Table 27-1

Use the balance sheet for the following questions.

First Bank of Erehwon			
Assets		Liabilities	
Required Reserves	\$20.00	Deposits	\$100.00
Loans	\$80.00		

- _____ 10. Refer to Table 27-1. The reserve ratio is
- a. zero percent.
 - b. 20 percent.
 - c. 80 percent.
 - d. 100 percent.

Table 27-2

Use the balance sheet for the following questions.

Last Bank of Hope			
Assets		Liabilities	
Reserves	\$2,500	Deposits	\$10,000
Loans	\$7,500		

- _____ 11. Refer to Table 27-2. If the reserve requirement is 10 percent, this bank
- a. is holding excess reserves of \$1,000.
 - b. is in a position to make a new loan of \$1,500.
 - c. has total reserves of \$10,000.
 - d. has less reserves than required.
- _____ 12. In Maerks the money supply is \$80,000 and required reserves are \$20,000. Assuming that people hold only deposits and no currency, and that banks hold only required reserves, the required reserve ratio is
- a. 40 percent.
 - b. 25 percent.
 - c. 20 percent.
 - d. 5 percent.
- _____ 13. If the reserve ratio is 100 percent, depositing \$500 of paper money in a bank will increase the money supply by
- a. \$500,000.
 - b. \$50,000.
 - c. \$5,000.
 - d. None of the above is correct.

- _____ 14. To increase the money supply, the Fed could
- sell government bonds.
 - increase the discount rate.
 - decrease the reserve requirement.
 - Both a and c are correct.
- _____ 15. To decrease the money supply, the Fed could
- sell government bonds.
 - increase the discount rate.
 - increase the reserve requirement.
 - All of the above are correct.
- _____ 16. If the discount rate is lowered, banks choose to borrow
- more from the Fed so reserves increase.
 - more from the Fed so reserves decrease.
 - less from the Fed so reserves increase.
 - less from the Fed so reserves decrease.
- _____ 17. If the reserve ratio is 10 percent, and banks do not hold excess reserves, when the Fed purchases \$10 million of government bonds, bank reserves
- increase by \$10 million and the money supply eventually increases by \$100 million.
 - decrease by \$10 million and the money supply eventually increases by \$100 million.
 - increase by \$10 million and the money supply eventually decreases by \$100 million.
 - decrease by \$10 million and the money supply eventually decreases by \$100 million.
- _____ 18. If the reserve ratio is 25 percent, and banks do not hold excess reserves, when the Fed sells \$40 million of bonds to the public, bank reserves
- increase by \$40 million and the money supply eventually increases by \$100 million.
 - increase by \$40 million and the money supply eventually increases by \$160 million.
 - decrease by \$40 million and the money supply eventually decreases by \$100 million.
 - decrease by \$40 million and the money supply eventually decreases by \$160 million.

**Chapter 27 Monetary System Practice Test
Answer Section**

MULTIPLE CHOICE

1. A
2. B
3. A
4. B
5. D
6. B
7. A
8. A
9. A
10. B
11. B
12. B
13. D
14. C
15. D
16. A
17. A
18. D