

ECON 2630 – Practice Problems 8

1. Which of the following is the proper order of assets ranked from most to least liquid?
 - a. travelers' checks, small time deposits, savings-type accounts
 - b. small time deposits, large time deposits, demand deposits
 - c. cash in the hands of the public, savings-type accounts, demand deposits
 - d. cash in the hands of the public, money market mutual funds, small time deposits

2. Which of the following is *not* included in the M1 money stock?
 - a. small time deposits
 - b. demand deposits
 - c. checking account deposits
 - d. travelers' checks
 - e. cash in the hands of the public

3. Which of the following is *not* an example of a commercial bank's liabilities?
 - a. checking account deposits
 - b. demand deposits
 - c. loans
 - d. none of the above

4. Which of the following is *not* a function of the Federal Reserve System?
 - a. supervising the banking system
 - b. deciding the maximum interest rates banks can charge for loans
 - c. clearing checks
 - d. acting as a bank for banks

5. Assume a bank currently holds \$75 million in demand deposits, \$10 million in vault cash and \$25 million deposited at the Federal Reserve. If the required reserve ratio is 15 percent, how much must the bank hold in required reserves?
 - a. \$1.5 million
 - b. \$3.75 million
 - c. \$11.25 million
 - d. \$16.5 million

6. Suppose the Federal Reserve wishes to decrease the money supply by \$100,000. If the required reserve ratio is 0.1, which of the following actions will achieve the Fed's goal?
 - a. The Fed must purchase \$100,000 in bonds.
 - b. The Fed must sell \$100,000 in bonds.
 - c. The Fed must purchase \$10,000 in bonds.
 - d. The Fed must sell \$10,000 in bonds.

7. If the Federal Reserve purchases a \$2,000 bond from a bond dealer who deposits the check in a bank, what changes will occur on that bank's balance sheet?
 - a. Reserves, demand deposits, total assets, and total liabilities will all increase by \$2,000.
 - b. Reserves and assets will increase by \$2,000; demand deposits and total liabilities will decrease by \$2,000.
 - c. Reserves and total assets will decrease by \$2,000; demand deposits and total liabilities will increase by \$2,000.
 - d. Reserves and total liabilities will decrease by \$2,000; demand deposits and total assets will increase by \$2,000.

8. If the reserve requirement is 0.2 and demand deposits are \$800 (assume no earlier loans), the banks can lend out
 - a. \$800
 - b. \$80
 - c. \$640
 - d. \$160

9. If the total amount of demand deposits in the country increases by \$12,000 after the Fed purchases \$6,000 in bonds, what is the required reserve ratio?
 - a. 0.4
 - b. 0.1
 - c. 0.2
 - d. 0.5

10. The Fed issues bonds to raise money and uses it to finance the U.S. government's budget deficit.
 - a. True
 - b. False