ECON 2630 – Practice Problems 9

1. Given the balance sheet below and assuming a required reserve ratio of 15 percent, how much (in dollar terms) must the bank hold in required reserves?

Assets		Liabilities and Net Worth	
Property	$5 million	Demand deposits	$80 million
Government bonds	$10 million		
Vault cash	$15 million		
Federal Reserve accounts	$20 million	Net worth	$20 million
Loans	$50 million		
TOTAL ASSETS	$100 million	TOTAL LIABILITIES PLUS NET WORTH	$100 million

   a. $12 million
   b. $14 million
   c. $16 million
   d. $18 million

2. Refer to the previous balance sheet and still assuming a required reserve ratio of 15 percent, how much excess reserve does this bank hold? (Note: the reserve of a bank is the **sum** of cash in the vault and the deposits in its Federal Reserve accounts.)

   a. $15 million
   b. $16 million
   c. $20 million
   d. $23 million
   e. $35 million

3. Continue with the previous balance sheet with a required reserve ratio of 15%, by much would the money supply increase if the bank lends out all its excess reserve, assuming that households do not change their cash holdings and banks loan out all of their excess reserves ?
   a. $27.06 million
   b. $125.70 million
   c. $153.33 million
   d. $183. 84 million

8. An individual's quantity of money demanded
   a. refers to how much money the individual would like to have
   b. refers to the amount of money an individual needs to maintain her desired standard of living
   c. refers to her wealth constraint
   d. refers to the amount of her wealth that an individual chooses to hold in the form of money

5. The demand for money is determined by
   a. the price level
   b. the price level and real income
   c. real income
   d. real income and the interest rate
   e. the price level, real income, and the interest rate

6. An individual would be most likely to increase the amount of money he wants to hold if
   a. the price level declines
   b. the price level declines and the interest rates rises
   c. his real income increases
   d. the interest rate increases

7. Which of the following would lead to a rightward movement along a money demand curve?
   a. a decrease in the interest rate
   b. a decrease in the price level
   c. an increase in the interest rate
   d. an increase in the price level

8. Which of the following would shift the money demand curve to the left?
   a. a decrease in the price level
   b. an increase in the interest rate
   c. an increase in the price level
   d. an increase in real income

9. The money supply curve is vertical because
   a. real income does not influence the quantity of money supplied
   b. the price level does not influence the level of spending
   c. only the interest rate influences the quantity of money supplied
   d. the Federal Reserve sets the money supply

10. If the interest rate is below its equilibrium value, the price of
    a. bonds will fall
    b. money will fall
    c. bonds will rise
    d. stocks will fall