

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) The supply of money in the economy is determined primarily by: 1) \_\_\_\_\_  
A) the banking system.  
B) the actions of the Federal Reserve.  
C) consumers.  
D) all of the above  
E) A and B only
- 2) Examples of money are: 2) \_\_\_\_\_  
A) a dollar bill.  
B) a check.  
C) a traveler's check.  
D) a quarter.  
E) all of the above
- 3) When money is accepted as payment for a good or service, it is being used as a: 3) \_\_\_\_\_  
A) unit of account.  
B) medium of exchange.  
C) store of value.  
D) a mechanism for transforming current purchases into future purchases.  
E) none of the above
- 4) As inflation rates increase, money becomes less useful as a: 4) \_\_\_\_\_  
A) unit of account.  
B) substitute for barter.  
C) medium of exchange.  
D) store of value.  
E) double coincidence of wants.
- 5) The Fed conducts monetary policy by setting targets for the: 5) \_\_\_\_\_  
A) federal funds rate.  
B) prime rate.  
C) discount rate.  
D) U.S. Treasury bond rate.  
E) all of the above
- 6) An increase in the discount rate will: 6) \_\_\_\_\_  
A) have an unclear effect on the money supply.  
B) decrease the money supply.  
C) increase the money supply.  
D) not affect the money supply.  
E) none of the above

- 7) Changing the reserve requirement is: 7) \_\_\_\_\_  
A) a tool that the Fed frequently uses.  
B) disruptive to the banking system.  
C) not effective in changing the amount of excess reserves held by banks but does change the money supply.  
D) effective in changing the amount of excess reserves held by banks but does not change the money supply.  
E) none of the above
- 8) The federal funds rate is the interest rate that: 8) \_\_\_\_\_  
A) the Fed charges to banks that borrow from it.  
B) the Fed pays on bank reserves.  
C) banks charge the Fed for using their reserves.  
D) banks charge each other for borrowed money.  
E) all of the above
- 9) The money multiplier tends to be greater when: 9) \_\_\_\_\_  
A) banks hold few excess reserves.  
B) the marginal propensity to consume is small.  
C) the marginal propensity to consume is large.  
D) banks hold many excess reserves.  
E) individuals hold more cash.
- 10) Which set of actions could the Fed use to increase the money supply? 10) \_\_\_\_\_  
A) an open market sale and a reduction in the required reserve ratio  
B) reduction in the required reserve ratio and an open market purchase  
C) a tax cut and a reduction in the required reserve ratio  
D) discount rate cut and an open market sale  
E) an open market purchase and a tax cut
- 11) Mr. Spud has recently obtained a bankcard from Idaho National Bank. Excited about the concept of using a little plastic card to get money from a machine, he quickly runs down to the nearest Automatic Teller Machine and withdraws \$1000. This action has: 11) \_\_\_\_\_  
A) reduced the bank's required reserves by \$100 assuming the required reserve ratio is 10%.  
B) not changed the money supply.  
C) reduced the money supply by \$1000.  
D) increased the money supply by \$1000.  
E) both C and D
- 12) An example of a quota is: 12) \_\_\_\_\_  
A) France charging an additional ten percent tax on imports of Mexican clothing.  
B) Japanese automobile manufacturers agreeing to limit exports to the United States.  
C) A decision by the United States to limit Korean television imports to 100,000 per year.  
D) all of the above
- 13) If the Fed buys \$60,000 of U.S. bonds and the reserve requirement is 10%, M1 will eventually: 13) \_\_\_\_\_  
A) not change.  
B) increase by \$60,000.  
C) increase by \$600,000.  
D) increase by \$120,000.  
E) none of the above

	Apples/hour	Carrots/hour
Willy	6	4
Blithe	3	1

Table 17.1

- 14) Consider two individuals, Willy and Blithe, who produce carrots and apples. Table 17.1 shows how much of each good Willy and Blithe can produce in one hour. Blithe's opportunity cost of one carrot is: 14) \_\_\_\_\_  
A) 6 apples.                      B) 4 apples.                      C) 3 apples.                      D) 1.5 apples.
- 15) A rich nation will trade with a poor nation because the: 15) \_\_\_\_\_  
A) poor nation has the absolute advantage in all products.  
B) rich nation has the absolute advantage in all products.  
C) poor nation has the comparative advantage in a product.  
D) rich nation has the comparative advantage in all products.
- 16) An example of a tariff is: 16) \_\_\_\_\_  
A) France charging an additional ten percent tax on imports of Mexican clothing.  
B) A decision by the United States to limit Korean television imports to 100,000 per year.  
C) Japanese automobile manufacturers agreeing to limit exports to the United States.  
D) all of the above
- 17) An agreement by one country to limit the volume of exports to another country is best known as a: 17) \_\_\_\_\_  
A) quota.                                      B) tariff.  
C) voluntary export restraint.              D) market restriction.
- 18) A limit imposed on the volume total imports of a particular good is best known as a(n): 18) \_\_\_\_\_  
A) quota.                                      B) tariff.  
C) voluntary export restraint.              D) import subsidy.

	Apples/hour	Carrots/hour
Willy	6	4
Blithe	3	1

Table 17.2

- 19) Consider two individuals, Willy and Blithe, who produce carrots and apples. Table 17.2 shows how much of each good Willy and Blithe can produce in one hour. Which of the following is true? 19) \_\_\_\_\_  
A) Willy has an absolute advantage in producing both goods.  
B) Willy has an absolute advantage in producing neither good.  
C) Willy has an absolute advantage in producing apples but not carrots.  
D) Willy has an absolute advantage in producing carrots but not apples.

- 20) Which of the following situations will arise in the domestic market following the imposition of an import ban? 20) \_\_\_\_\_
- A) imports increase, domestic production decreases, prices decrease
  - B) imports increase, domestic production increases, prices increase
  - C) imports decrease, domestic production increases, prices increase
  - D) imports decrease, domestic production increases, prices decrease
  - E) imports decrease, domestic production decreases, prices increase

## Answer Key

Testname: EXAM\_03

- 1) E
- 2) E
- 3) B
- 4) D
- 5) A
- 6) B
- 7) B
- 8) D
- 9) A
- 10) B
- 11) A
- 12) C
- 13) C
- 14) C
- 15) C
- 16) A
- 17) C
- 18) A
- 19) A
- 20) C