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

1) Models describing the determination of the money supply and the Fed’s role in this process normally focus on _____ rather than _____, since Fed actions have a more predictable effect on the former.
   A) reserves; high-powered money  
   B) the monetary base; high-powered money  
   C) reserves; the monetary base  
   D) the monetary base; reserves

2) An increase in the monetary base that goes into currency is _____, while an increase that goes into deposits is _____.
   A) multiplied; not multiplied  
   B) not multiplied; not multiplied  
   C) added; subtracted  
   D) not multiplied; multiplied  
   E) multiplied; multiplied

3) The formula for the money supply that includes excess reserves and currency is
   A) \( D = \frac{1}{r + e + c} \times MB \).
   B) \( M = \frac{(1 + c)}{(r + e + c)} \times MB \).
   C) \( m = \frac{1}{r + e + c} \).
   D) \( M = \frac{(1 + c)}{(r + e + c)} \).
   E) \( D = \frac{1}{r + e + c} \).

4) If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $1000 billion, and excess reserves total $1 billion, then the money multiplier is approximately
   A) 2.0.  
   B) 0.7.  
   C) 2.8.  
   D) 2.5.

5) If the required reserve ratio is one-third, currency in circulation is $300 billion, and checkable deposits are $900 billion, then the money multiplier is approximately
   A) 2.5.  
   B) 0.67.  
   C) 2.0.  
   D) 2.8.

6) Comparison of the simple model of money creation with the money supply model accounting for depositor and bank behavior indicates that
   A) an increase in the monetary base that goes into currency is not multiplied.  
   B) the money multiplier is negatively related to the currency ratio.  
   C) the money multiplier is positively related to the excess reserve ratio  
   D) all of the above occur.  
   E) only A and B of the above.
7) Assuming initially that \( r = 10\% \), \( c = 40\% \), and \( e = 0 \), a decrease in \( r \) to 5\% causes

A) the money multiplier to decrease from 3.11 to 2.8.
B) the money multiplier to decrease from 2.22 to 2.
C) the money multiplier to increase from 2.8 to 3.11.
D) the money multiplier to increase from 2 to 2.22.
E) no change in the money multiplier.

8) When banks reduce their holdings of excess reserves

A) the monetary base falls.
B) the money supply increases.
C) the money supply falls.
D) the money multiplier falls.
E) the monetary base increases.

9) The money multiplier is negatively related to

A) high-powered money.
B) discount borrowings from the Fed.
C) the excess reserves ratio.
D) both A and B of the above.

10) Factors that cause an increase in the money multiplier include:

A) a lowering of the required reserve ratio.
B) an increase in market interest rates.
C) an increase in expected deposit outflows.
D) all of the above.
E) only A and B of the above.

11) Factors that cause a decline in the money multiplier include:

A) a decrease in the market interest rate.
B) a decrease in expected deposit outflows.
C) a lowering of the required reserve ratio.
D) only B and C of the above.

12) Factors that cause an increase in the money supply include:

A) an increase in expected deposit outflows.
B) a decline in market interest rates.
C) a decline in the discount loan rate.
D) only A and B of the above.

13) Which of the following is the most important determinant in explaining movements in the money supply over time?

A) Changes in the nonborrowed monetary base
B) Changes in the currency ratio
C) Changes in the required reserve ratios
D) Changes in the discount rate
14) During the banking panic that occurred between October 1930 and January 1931,
A) the money supply declined sharply.
B) both currency ratio and excess reserve ratio rose.
C) excess reserve ratio more than doubled.
D) all of the above occurred.
E) only A and B of the above occurred.

15) Equal increases in the discount rate and market interest rates cause banks to
A) hold fewer excess reserves.
B) decrease discount borrowing from the Fed.
C) increase discount borrowing from the Fed.
D) do both A and B of the above.
Answer Key

Testname: PRACTICE_CH16

1) D
2) D
3) B
4) C
5) C
6) E
7) C
8) B
9) C
10) E
11) A
12) C
13) A
14) D
15) A