Name: ________________________ **Class:** ___________________ **Date:** __________ **ID: A**

Macro CH 27 sample test questions

Multiple Choice
Identify the choice that best completes the statement or answers the question.

____ 1. New money is created in the U.S. economy by
  a. the Supreme Court.
  b. banks that create checkable deposits.
  c. the U.S. Treasury.
  d. U.S. Department of Mint.
  e. the U.S. Congress.

____ 2. To establish a commercial bank the first step is to
  a. accept deposits in order to have some funds on hand.
  b. obtain either a federal or state charter.
  c. make loans to get things started.
  d. establish an account with the Fed.
  e. start buying U.S. government securities.

____ 3. When a bank sells $500,000 shares of stock to raise capital, the bank's assets ____ by $500,000 and its owners' equity ____ .
  a. increase; increases by $500,000.
  b. decrease; decreases by $500,000.
  c. increase; decreases by $500,000.
  d. decrease; increases by $500,000.
  e. increase; does not change

____ 4. A bank's balance sheet
  a. summarizes its assets and liabilities.
  b. measures a bank's riskiness.
  c. lists all its licenses for operation.
  d. is the list of contributors to its initial capital.
  e. shows its profit for the year.

____ 5. Banks count among their assets
  a. only government securities.
  b. only government securities and reserves with the Fed.
  c. government securities and checkable deposits.
  d. government securities, loans, and office equipment.
  e. the checkable deposits they have accepted.

____ 6. Which of the following is a liability on a bank's balance sheet?
  a. cash
  b. checkable deposits
  c. securities
  d. equipment
  e. loans

____ 7. Which of the following statements about a bank's balance sheet is correct?
a. Checkable deposits are a liability to the bank.
b. The owners equity is an asset to the bank.
c. Checkable deposits are an asset to the bank.
d. Loans are a liability to the bank.
e. Reserves at the Fed are a liability to the bank.

____ 8. Which of the following is a liability to a bank?
a. Checkable deposits.
b. Equipment owned by the bank.
c. Reserves at the Atlanta Fed.
d. Loans
e. Government securities

____ 9. Jim makes a $1,000 deposit into his checking account at Bank of America. The immediate effect of this transaction on Bank of America's balance sheet is
a. an increase in bank liabilities by $1,000 and no change in bank assets.
b. an increase in bank assets and liabilities by $1,000.
c. a decrease in bank liabilities by $1,000 and no change in bank assets.
d. an increase in bank assets by $1,000 and a decrease in bank liabilities by $1,000.
e. a decrease in bank assets and liabilities by $1,000.

____ 10. If you deposit $1,000 of cash in your checkable deposit, how does your bank's balance sheet change?
a. Only liabilities increase.
b. Only assets increase.
c. Both liabilities and assets increase.
d. Both liabilities and assets decrease.
e. Assets increase and liabilities decrease.

____ 11. Which of the following transactions definitely decreases a bank's liabilities?
a. A bank sells new shares of bank stock.
b. A bank purchases new computers with cash.
c. A customer withdraws $500 from her checking account.
d. A bank sells $1,000,000 worth of government securities.
e. A bank makes a new loan for $5,000.

____ 12. First Nation's Bank purchases $1,000,000 worth of government securities using its reserves to pay for the securities. This transaction ____ of First Nation's Bank.
a. increases the assets
b. decreases the assets
c. decreases the liabilities
d. does not change the total value of the assets
e. increases the liabilities

____ 13. A reason why banks purchase government securities is that the securities provide the bank with
a. reserves with which to make loans.
b. a safe income earning asset.
c. more bank capital.
d. a low interest liability.
e. a liability that has a relatively low interest rate.

____ 14. When Maria deposits $100 in currency in her checkable deposit at Bank of America, the immediate effect is that the quantity of money
a. decreases.
b. does not change.
c. increases.
d. changes, but the direction of the change depends on whether the deposit was accepted by a thrift institution or a commercial bank.
e. changes only if Bank of America does not have excess reserves.

____ 15. If you deposit $1,000 in cash in your checkable deposit at your bank, the quantity of money immediately
a. increases by $1,000.
b. decreases by $1,000.
c. increases by $2,000.
d. does not change in size.
e. changes, but more information about the required reserve ratio is necessary to determine the amount of the change.

____ 16. A newly created bank just opened and its first customer made a deposit of $50,000 cash in a checkable deposit. At this point, if the required reserve ratio is 20 percent, the bank has
a. $50,000 in required reserves.
b. $50,000 in excess reserves.
c. $50,000 in actual reserves.
d. $40,000 in actual reserves.
e. $40,000 in required reserves.

____ 17. A bank's reserve ratio is the proportion of a bank's total
a. reserves deposited at the Fed.
b. deposits deposited at the Fed.
c. deposits that are held as reserves.
d. assets that are held as currency.
e. liabilities that are held as currency.

____ 18. The required reserve ratio is the ratio of ____ that banks are required to hold by regulation.
a. reserves to total assets
b. deposits to total assets
c. reserves to deposits
d. deposits to reserves
e. reserves to total liabilities

____ 19. The required reserve ratio is the
a. amount of excess reserves the bank holds just in case.
b. total amount of reserves the bank holds in its vaults.
c. total amount of reserves the bank holds at the Fed.
d. amount of reserves banks are required by the Fed to be held as a percentage of the bank's deposits.
e. amount of reserves banks are required by the Fed to be held as a percentage of the bank's loans.

____ 20. Which of the following statements is correct?
a. required reserves = (total deposits) × (excess reserve ratio)
b. required reserves = (total reserves) × (excess reserve ratio)
c. required reserves = (total deposits) × (required reserve ratio)
d. required reserves = (total deposits) ÷ (required reserve ratio)
e. required reserves = (total deposits) × (required reserve ratio) – excess reserves

____ 21. New Bank's required reserves are $50,000. If its total assets equal $1,000,000 and its total deposits equal $500,000, the required reserve ratio is
a. 1 percent.
b. 5 percent.
c. 10 percent.
d. 15 percent.
e. 50 percent.

____ 22. Bobby deposits $5,000 cash in his checkable deposit at the Bank of America. If the required reserve ratio is 10 percent, Bank of America's
a. required reserves increase by $5,000.
b. assets do not change but its liabilities increase.
c. required reserves increase by $500 and its excess reserves increase by $4,500.
d. excess reserves increase by $5,000.
e. liabilities do not change but its assets increase.

____ 23. The Second National Bank of San Jose has excess reserves of $10,000, required reserves of $50,000 and the required reserve ratio is 10 percent. What are the total amount of deposits in this bank?
a. $100,000
b. $400,000
c. $500,000
d. $600,000
e. $510,000

____ 24. For $100,000 of deposits, the amount of loans a bank can make is limited by
a. federal law.
b. the annual federal budget.
c. the Treasury Department.
d. its excess reserves.
e. state law, with banks in different states being able to make different amounts of loans.

____ 25. When Meg deposits $20,000 cash in her checkable deposit at the Bank of America and the Bank of America's excess reserves increase by $19,000, the required reserve ratio is
a. 5 percent.
b. 10 percent.
c. 15 percent.
d. 20 percent.
e. $1,000.

____ 26. At any point in time, a single bank can loan an amount equal to
a. its excess reserves.
b. its required reserves.
c. its government securities.
d. the amount of loans the bank made in the past.
e. its total reserves.

____ 27. Assume First Central Bank has a required reserve ratio of 15 percent; $80,000 in total deposits, loans equal to $60,000, and has $20,000 in actual reserves. First Central can make additional loans totaling
a. $8,000.
b. $12,000.
c. $20,000.
d. $60,000.
e. $80,000.

____ 28. A newly created bank has just opened and its first customer made a deposit of $50,000 cash in a checkable deposit. If the required reserve ratio is 20 percent, the bank can loan
a. $50,000.
b. $40,000.
c. $30,000.
d. $20,000.
e. $70,000.

____ 29. Bank One has reserves of $100,000, government securities of $200,000, loans of $700,000, and checkable deposits of $800,000. If the required reserve ratio is 10 percent, Bank One can make additional loans totaling
a. $0.00.
b. $10,000.
c. $20,000.
d. $80,000.
e. $100,000.

____ 30. A new bank has reserves of $600,000, checkable deposits of $500,000, and government securities of $100,000. If the required reserve ratio is 10 percent, the amount of loans this bank can make is
a. $50,000.
b. $60,000.
c. $540,000.
d. $550,000.
e. $600,000.

____ 31. If a single bank has $25,000 in excess reserves and the required reserve ratio is 20 percent, what is the maximum this bank can loan?
a. $5,000.
b. $20,000.
c. $25,000.
d. $125,000.
e. $30,000.

____ 32. If Bulge Bank has a required reserve ratio of 10 percent, loans of $25,000, deposits of $100,000, vault cash of $10,000, and reserves at the Fed of $65,000, then the bank
  a. has no remaining capacity to make loans.
  b. does not have enough reserves to meet its requirement.
  c. has excess reserves of $65,000.
  d. has excess reserves of $55,000.
  e. has excess reserves of $75,000.

____ 33. The Commerce Bank of Pennsylvania has total deposits of $100,000 and total reserves of $100,000. The reserve ratio is 20 percent. The bank's excess reserves are
  a. $20,000.
  b. $120,000.
  c. $180,000.
  d. $80,000.
  e. $100,000.

____ 34. If a bank clears a check for $18,000 drawn on its checkable deposits, the bank's assets ____ and the bank's liabilities ____.
  a. fall by $18,000; do not change
  b. do not change; fall by $18,000
  c. fall by $18,000; fall by $18,000
  d. rise by $18,000; fall by $18,000
  e. rise by $18,000; rise by $18,000

____ 35. If a bank clears a check for $18,000 that has been deposited in its checkable deposits, the bank's assets ____ and the bank's liabilities ____.
  a. rise by $18,000; do not change
  b. do not change; rise by $18,000
  c. rise by $18,000; rise by $18,000
  d. rise by $18,000; fall by $18,000
  e. fall by $18,000; fall by $18,000

____ 36. Cindy writes a $100 check drawn on Bank of America. Angela deposits the $100 check in her checking account at Regions Bank. Once the check clears both banks, the quantity of money
  a. increases by $100.
  b. decreases by $100.
  c. does not change.
  d. increases by more than $100.
  e. decreases by more than $100.

____ 37. Joey has received a loan from First Bank and now begins to write checks from the loan. If the checks are written to banks other than First Bank, the assets of First Bank ____ and its liabilities ____.
  a. increase; increase
  b. increase; decrease
  c. decrease; increase
  d. decrease; decrease
  e. do not change; decrease

____ 38. Bill has an account with Altera Bank and writes a check for $100 to pay a phone bill. This check is written for Joe's Cheap Phone Service, that has an account with Cabal Bank. Both Cabal and Altera have accounts with the Fed. When the check is cleared
- a. Cabal's assets and liabilities decrease by $100.
- b. Cabal's liabilities decrease but its assets increase by $100.
- c. Cabal's assets and liabilities both increase by $100.
- d. the liabilities at the Fed are decreased.
- e. the assets at the Fed are decreased.

____ 39. Bill has an account with Altera Bank and writes a check for $100 to pay a phone bill. This check is written to Joe's Cheap Phone Service, that has an account with Cabal Bank. Both Cabal and Altera have accounts with the Fed. Once the check has cleared the quantity of money has
- a. increased by a multiple of $100.
- b. not changed.
- c. increased by exactly $100.
- d. decreased by $100.
- e. decreased by a multiple of $100.

____ 40. Banks create money by
- a. printing paper money.
- b. minting coins.
- c. making loans.
- d. buying government securities.
- e. None of the above because banks cannot create money, only the Federal Reserve can create money.

____ 41. When the First Bank of Townsville makes a loan, before the loan is spent its
- a. assets initially increase with no change in its liabilities.
- b. assets and liabilities increase by the exact amount of the loan.
- c. assets and liabilities decrease by the exact amount of the loan.
- d. account at the Fed is immediately decreased by the amount of the loan.
- e. assets do not change and its liabilities do not change.

____ 42. Assume the First Bank of Townsville makes a loan of $2,500. This loan will
- a. increase the quantity of money initially by $2,500.
- b. decrease the quantity of money initially by $2,500.
- c. have no change on the quantity of money, just its composition.
- d. increase the First Bank of Townville's liabilities at the Fed.
- e. increase the First Bank of Townville's reserves.

____ 43. When the First Bank of Townsville makes a loan, it
- a. prints money.
- b. borrows the money from the Fed.
- c. creates a checkable deposit.
- d. decreases the quantity of money.
- e. increases its reserves.

____ 44. Which of the following bank transactions changes the quantity of money?
a. Accepting a cash deposit.
b. Making a loan to a firm.
c. Clearing a check deposited in another bank.
d. Establishing a reserve account at the Fed.
e. Buying a government security with cash.

____ 45. If a check from a loan granted by Second City Bank is deposited by its recipient at Federal Bank, then
a. Federal Bank can now make more loans than before.
b. the assets and liabilities of Second City Bank have now increased.
c. Federal bank's assets and liabilities have now decreased.
d. Federal Bank cannot make any more loans than it could before because Second City already made the loan.
e. Federal Bank must give Second bank some reserves.

____ 46. First Union has no excess reserves when a new deposit of $20,000 is made. The required reserve ratio is 5 percent. How much can the banking system create in new deposits?
a. $20,000
b. $400,000
c. $399,980
d. $19,000
e. $5,000

____ 47. First Union has no excess reserves when a new deposit of $20,000 is made. The required reserve ratio is 5 percent. How much can First Union immediately lend out following the deposit?
a. $20,000
b. $19,000
c. $15,000
d. $9,000
e. $1,000

____ 48. Suppose that the Citizens First Bank has excess reserves of $75 and that the required reserve ratio is 25 percent. What will be the total change in deposits that the banking system can create?
a. $18.75
b. $1,875
c. $300
d. $1,000
e. $75

____ 49. A bank receives additional excess reserves of $50,000. If the required reserve ratio is 10 percent, the total amount of deposits the banking system can create with these reserves is
a. $5,000.
b. $50,000.
c. $500,000.
d. $5,000,000.
e. $0.

____ 50. If a single bank has $25,000 in excess reserves and the required reserve ratio is 20 percent, what is the maximum the banking system can loan if all the money created is deposited in banks?
a. $5,000
b. $20,000
c. $25,000
d. $125,000
e. $50,000

____ 51. Which of the following situations leads to the greatest total increase in deposits?
a. additional reserves of $100,000 when the required reserve ratio is 5 percent
b. additional reserves of $120,000 when the required reserve ratio is 10 percent
c. additional reserves of $200,000 when the required reserve ratio is 20 percent
d. additional reserves of $250,000 when the required reserve ratio is 15 percent
e. additional reserves of $100,000 when the required reserve ratio is 50 percent

____ 52. Open market operations are defined as
a. a bank borrowing from the Fed.
b. the buying and selling of securities by the Fed.
c. the buying and selling of securities between banks.
d. the amount banks can lend on each deposit.
e. a bank making a loan to the Fed.

____ 53. Open market operations are used
a. infrequently because their effect is too drastic.
b. infrequently because they do not have a strong effect.
c. to change the quantity of reserves in the banking system.
d. once a year to change the growth of the quantity of money.
e. whenever the U.S. Congress passes a law allowing the Fed to use them for a stated period of time.

____ 54. When the Fed buys securities from the public, banks' reserves ____ and the quantity of money ____.
a. increase; increases
b. increase; decreases
c. decrease; increases
d. decrease; decreases
e. do not change; increases

____ 55. When the Fed purchases government securities,
a. excess reserves in the banking system increase, leading to more loans being made.
b. required reserves in the banking system increase, leading to more loans being made.
c. excess reserves in the banking system decrease, leading to fewer loans being made.
d. required reserves in the banking system decrease, leading to fewer loans being made.
e. the monetary base does not change.

____ 56. When the Fed sells government securities to banks, the sale
a. increases banks' reserves.
b. increases the quantity of money.
c. creates more excess reserves.
d. decreases banks' reserves.
e. increases the monetary base.

____ 57. The Fed purchases $1 million of U.S. government securities from First Bank. The required reserve ratio is 10 percent, the currency drain is zero, and banks loan all excess reserves. By how much does First Bank's excess reserves increase?
a. $900,000
b. $1,000,000
c. $1,100,000
d. $10,000,000
e. $100,000

____ 58. If the Fed purchases securities in the amount of $100,000 from First Union Bank, then the
a. assets of First Union Bank decrease by $100,000.
b. assets of the Fed decrease by $100,000.
c. assets of First Union Bank change in composition but not in the amount.
d. liabilities of the Fed change in composition but not in amount.
e. liabilities of First Union decrease by $100,000.

____ 59. The Fed sells $300 million U.S. government securities to commercial banks. This action leads to ____ in Fed assets and ____ in Fed liabilities.
a. a $300 million increase; a $300 million increase
b. a $300 million increase; a $300 million decrease
c. no change in Fed assets; no change in Fed liabilities
d. a $300 million decrease; a $300 million decrease in
e. a $300 million decrease; a $300 million increase

____ 60. If the Fed makes an open market purchase of $1 million of government securities, the monetary base
a. is decreased by $1 million.
b. is unchanged in size, though its composition changes.
c. is increased by $1 million.
d. will decrease by a multiple of $1 million over time.
e. will increase by a multiple of $1 million over time.

____ 61. Assume the required reserve ratio is 10 percent, banks loan all excess reserves and the currency drain is zero. If the Fed sells $100 million of U.S. government securities to Boise Bank, the monetary base increases by
a. $1 million.
b. $10 million.
c. $100 million.
d. $1,000 million.
e. $90 million.

____ 62. Suppose the Fed buys $1 million of government securities from Bank One, a large commercial bank. Bank One's reserves ____ and its deposits ____.
a. increase by $1 million; do not change
b. increase by $1 million; increase by $1 million
c. do not change; increase by $1 million
d. do not change; do not change
e. decrease by $1 million; do not change

____ 63. When the required reserve ratio is 10 percent, suppose the Fed buys $1,000,000 of government securities from banks. As a result, the banks' excess reserves
a. increase by $900,000.
b. increase by $1,000,000.
c. increase by $10,000.
d. decrease by $10,000.
e. decrease by $1,000,000.

____ 64. A currency drain is
a. an increase in currency held outside banks.
b. when the Fed buys securities but it is not when the Fed sells securities.
c. when the Fed sells securities but it is not when the Fed buys securities.
d. when the Fed either buys or sells securities.
e. when the Fed raises the required reserve ratio.

____ 65. A currency drain occurs when the
a. Fed increases the required reserve ratio.
b. Fed sells U.S. government securities.
c. non-bank public increases its holdings of currency outside the banking system.
d. banks reduce the number of loans they create with their excess reserves.
e. Fed buys U.S. government securities.

____ 66. The currency drain reduces the amount of
a. reserves available to banks to make loans.
b. currency the Fed has outstanding in the economy.
c. currency available for banks to borrow from the Fed.
d. the monetary base.
e. open market operations the Fed can make.

____ 67. When part of a bank loan does not return to the banking system but rather remains outside the banking system as currency, then the money multiplier ____ in size and the amount of money created by an open market operation ____.
a. increases; decreases
b. does not change; increases
c. decreases; decreases
d. increases; increases
e. decreases; does not change

____ 68. Suppose the required reserve ratio is 10 percent and the currency drain is 0 percent. When banks lend $100,000, how much of this loan will be deposited back in banks?
a. $80,000
b. $100,000
c. $10,000
d. $20,000
e. $110,000

____ 69. The quantity of money decreases if
- a. the currency drain increases.
- b. the required reserve ratio decreases.
- c. banks loan all excess reserves.
- d. the Treasury Department issues fewer government securities.
- e. the Fed buys U.S. government securities.

____ 70. ____ in the currency drain and ____ in the required reserve ratio ____ the money multiplier.
- a. An increase; an increase; increase
- b. An increase; a decrease; decrease
- c. A decrease; an increase; decrease
- d. A decrease; a decrease; increase
- e. An increase; a decrease; increase

____ 71. The Fed purchases $1 million of U.S. government securities from First Bank. The required reserve ratio is 10 percent, the currency drain is zero, and banks loan all excess reserves. The money multiplier is equal to
- a. 0.10.
- b. 1.0.
- c. 10.0.
- d. 100.0.
- e. $1 million.

____ 72. C is the currency drain and R is the required reserve ratio. The money multiplier equals
- a. $\frac{1+C}{R+C}$.
- b. $\frac{1+R}{R+C}$.
- c. $\frac{1+R}{1+C}$.
- d. $\frac{R-C}{1+R}$.
- e. $\frac{R+C}{1+C}$.

____ 73. The monetary multiplier is 3 and the change in the monetary base is $100,000. How much will the quantity of money increase?
- a. $300,000
- b. $200,000
- c. $100,000
- d. $70,000
- e. $33,333.

____ 74. Suppose the currency drain is 25 percent and the required reserve ratio is 20 percent. The money multiplier equals
- a. 4.00.
- b. 3.00.
- c. 2.78.
- d. 2.00.
- e. 5.42.

____ 75. If the currency drain is 30 percent and the required reserve ratio is 10 percent, the money multiplier is
a. 0.80.
b. 1.25.
c. 3.25.
d. 5.00.
e. 10.0.

____ 76. If the Fed buys $10 million of government securities when the required reserve ratio is 20 percent and the currency drain is 5 percent, the quantity of money
a. increases by $42 million.
b. increases by $50 million.
c. decreases by $42 million.
d. decreases by $50 million.
e. increases by $7.5 million.

____ 77. Looking at U.S. monetary history since 1965, we see that the M2 multiplier
a. decreased until about 1985 because required reserves decreased.
b. increased until about 1985 because required reserves decreased.
c. decreased after 1985 because the currency drain decreased.
d. stayed constant during this time period.
e. increased after 1985 because the currency drain decreased.

____ 78. The M2 money multiplier in the United States is currently about
a. 12.
b. 9.
c. 5.
d. 3.
e. 26.

____ 79. If the Fed buys a $100,000 government security from a bank when the required reserve ratio is 20 percent and the currency drain is 5 percent, the bank can loan a maximum of
a. $75,000.
b. $80,000.
c. $100,000.
d. $95,000.
e. $85,000.

____ 80. If the Fed sells a $100,000 government security to a bank that initially had no excess reserves when the required reserve ratio is 20 percent and the currency drain is 5 percent, the bank must call in loans of
a. $75,000.
b. $80,000.
c. $100,000.
d. $95,000.
e. $85,000.