ECONOMICS MONEY AND BANKING

INSTRUCTIONS: For multiple choice questions, indicate in the space provided whether correct answer is A, B, C or D. For TRUE-FALSE questions, indicate whether the statement is True or False.

According to Keynesian theory (as demonstrated in the four-sector model):

1) \_\_\_ The public’s “asset demand” motive for holding cash balances (i.e., liquidity) is primarily determined by the level of income in the economy. T or F?

2)\_\_\_ People will reduce their holdings of liquid funds if they experience an increase in their incomes. T or F?

3)\_\_\_ The amount of investment spending in the economy is determined by interest rates and business firms’ profit expectations. T or F?

4)\_\_\_ If interest rates decline, business investment spending will increase because the MEI curve shifts to the right. T or F?

5)\_\_\_ Equilibrium output can be increased in an environment of low consumption and low investment spending if there is:

A) an increase in the money supply

B) an increase in government spending

C) a reduction in interest rates

D) all of these.

Monetarism differs in some respects from Keynesian theory. Indicate whether the following statements reflect monetarist contentions or beliefs. (True if they do; False if they don’t)

6)\_\_\_ if the economy is expected to be at full employment with no inflation in the year ahead, the Federal Reserve should plan to keep money supply growing by 3-5% in the year ahead. T or F?

7)\_\_\_ In a recession, transitory income declines, causing customers to increase their holdings of money balances, thereby causing interest rates to decline. T or F?

8)\_\_\_ An increase in government spending will increase total income and output only if the federal reserve simultaneously keeps the money supply unchanged. T or F?

9)\_\_\_If the Federal Reserve provides the economy with more money than it needs to

purchase available goods and services it will trigger “demand pull” inflation. T or F?

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10)\_\_\_ According to the liquidity preference theory of interest rates, if the federal reserve increases interest rates there will be a reduction in

A: consumer savings

B: Business purchases of new equipment

C: Consumer purchases of newly issued bonds

D: all of the above

11)\_\_\_ The classical theory of interest assumed that banks would make off of their savings deposits available for lending and that business borrowers would borrow more at a lower interest rate. T or F?

12)\_\_\_ In the liquidity trap, monetary policy generates a perverse effect on interest rates, causing rates to return to negative in real terms. T or F?

13)\_\_\_ If a reduction in the value of your house causes you to spend less of your income on consumer goods, you are exhibiting

A: The housing bubbling effect

B: The consumption effect

C: a reduction in your marginal propensity to consume

D: the wealth effect

14)\_\_\_ According to the "Credit Availability" channel of monetary policy transmission, a monetary policy that reduced real interest rates would generate increased on

A: Capital goods

B: Residential Housing

C: Automobiles

D: All of these

15)\_\_\_ The bursting of the housing bubble in 2006 is attributed as the cause of the collapse of business and consumer spending in 2009; this cause and effect linkage is an example of the

A: the crowding out effect

B: Cost of capital effect

C: Wealth effect

D: Bank Lending Effect

16)\_\_\_ Frequently a tight monetary policy causes investment spending by small business firms to decline, even though interest rates do not increase measurably; this response to tight money is channeled through the

A: cost of capital effect

B: disintermediation effect

C: crowding out effect

D: none of these

17)\_\_\_ according to “monetarists” inflation occurs whenever

A: wage increases begin to exceed price increases

B: the money supply increases

C: the price level rises continuously over a period of time

D: all of these

18)\_\_\_ Monetarists and Keynesians fundamentally disagree over Milton Friedman’s proposition that “Inflation is always and everywhere a monetary phenomenon” T or F?

19)\_\_\_ The time it takes for monetary or fiscal policymakers to bring about change in monetary or fiscal policy is called the

A: business cycle lag

B: Implementation lab

C: administrative lag

D: operational lag

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20) In 2010 inflation in the US was driven by demand for oil that forced up gasoline, energy and related prices, while wages for most workers did not increase. Inflation in 2010

A: illustrates the “money illusion”

B: was demand pull inflation

C: was fully anticipated and thus did not redistribute income or wealth

D: all of these.

21)\_\_\_ during an inflation, the real income of people whose nominal income rise faster than the price level increase because of the “wealth effect” of inflation. T or F?

22)\_\_\_ most economists believe that the wage-spiral no longer links demand pull and cost push inflation because

A: unions are so few that they have lost the ability to drive up wages throughout the economy

B: foreign competition is so intense that domestic producers are unwilling to raise prices

C: workers and producers no longer have any inflationary expectations

D: all of these

23)\_\_\_ When the quality of a good improves while its price remains the same, the purchasing power value of money increases, but the government understates this change in the cost of living if the quality improvement is not taken into account in formulating the consumer price index. T or F?

24)\_\_\_ who of the following would be included in the bureau of labor statistics monthly count of the "unemployed"

A: Miguel who is on temporary layoff

B: Marina who neither has a job nor is looking for one

C: Manny who worked only 15 hours in each of the last 4 weeks

D: None of the above

25)\_\_\_ Sam works part-time at best buy, but really wants a full-time job at the store. The bureau of labor statistics counts Sam as

A: a discouraged worker

B: as part-time structurally unemployed

C: as employed and in the labor force

D: all of the above

26)\_\_\_ suppose that the adult population in the country of Atlantis is 115 million. if 80 million people are employed and 5 million are unemployed, then

A: 35 million are not in the labor force

B: 75 million are in the labor force

C: 35 million are in the labor force

D: 30 million are not in the labor force.

27)\_\_\_ Which of the following is not an explanation for the existence of structural unemployment in the US?

A: the increasing productivity of US workers

B: Unions

C: Technological displacement

D: state and federal minimum wage laws

28)\_\_\_ some economists contended that frictional unemployment in the US could be reduced if the government

A: reduced unemployment insurance benefits

B: Provided all US residents with universal health insurance benefits

C: eliminated all federal and state minimum wage laws

D: all of the above

29)\_\_\_ In 2016, the US unemployment rate averaged 5% economists consider most of this rate to be a

A: Cyclical unemployment

B: structural unemployment

C: frictional unemployment

D: Seasonal unemployment

30)\_\_\_ US data on unemployment and inflation in the 1970s shows that in some years both inflation and unemployment increased. According to Phillips curve analysis this was due to

A: unanticipated shock inflation

B: a mis-reading of the data; the curve shifted to the right in the 1970s

C: a fundamental shift in the elasticity (i.e., degree of responsiveness) of the Phillips curve)

D: the effects of the wage-price spiral

31)\_\_\_ According to the Phillips curve analysis, if unemployment is at its "natural rate", a simulative monetary and fiscal policy will not cause inflation. T or F?

32)\_\_\_ wage-price controls are seen by advocates as a way for government to

A: eliminate cost-push pressure in the economy

B: prevent inflationary expectations from developing in the economy

C: bring to the market fairer prices for consumers and fairer wages for workers

D: all of the above

33)\_\_\_ advocates for nationwide “indexation” argue that indexation would eliminate inflations’ re-distributional income and wealth effects and thereby free the government to strongly stimulate the economy to eliminate unemployment. T or F?

34)\_\_\_ The premise of “supply side tax cuts” is that by reducing tax rates

A: tax revenues will increase

B: tax revenues will decline, forcing government to reduce its spending

C: people will have more money to spend, which will stimulate the economy and reduce unemployment without the need for increased government transfer payments

D: the supply of goods and services will expand faster than the inflation rate.

35)\_\_\_ increases in worker productivity since 2009 have

A: enabled US producers to produce more with fewer workers

B: made US workers more valuable to US employers

C: enabled US producers to increase profit without having to raise the prices of their products.

D: all of the above.