Second Midterm (typo corr.)

1 hour, 48 minutes. Closed book, notes, cell phones, Twitter links, etc. Graphing calculators, PDAs etc. may not be used. A non-graphing calculator may be used if desired. Please cover your answers.

100 points – 40 @ 2.5 points each. Answer each of the following on your computer answer sheet, using a soft (#2) pencil. Bubble in your name on your answer sheet. Social Security # is not required. Make sure you have all 40 questions. Scoring is by number right, so it pays to guess. When done, please place your answer sheet inside this question sheet and hand in both, presenting your photo ID card to the proctor.

0. Under Special Code K, please bubble in the number 1.

1 Official M1 includes
   a) NOW accounts  
   b) Certificates of deposit  
   c) Money market mutual funds 
   d) Money market deposit accounts 
   e) Nonbank repos

2. Which of the following is not typically a commercial bank liability?
   a) demand deposits  
   b) certificates of deposit  
   c) federal funds purchased  
   d) money market deposit accounts  
   e) commercial loans

3. The Federal Funds rate is
   a) the rate at which the Fed lends directly to banks  
   b) the rate banks charge their best customers (in theory)  
   c) the implicit yield on Federal Treasury bonds  
   d) the rate the Fed charges on repurchase agreements  
   e) the rate banks charge each other for overnight use of reserves

4. The Prime rate is
   (same key as previous question)

5. The Discount Rate is
   (same key as previous question)
6. When the public deposits currency in banks, the immediate effect is
   a) the monetary base increases
   b) the monetary base decreases
   c) the money supply increases
   d) the money supply decreases
   e) neither the base nor the money supply changes

7. When banks make new loans out of surplus reserves, the immediate effect is
   (Same key as above)

8. If the monetary base B is $1.00 trillion and the bank expansion multiplier k is 2.5, the
   money stock M will be
   a) $400 billion
   b) $1.00 trillion
   c) $1.25 trillion
   d) $2.50 trillion
   e) can’t tell without knowing the required reserve ratio

9. What is the bank expansion multiplier if the public’s desired ratio of currency to
   checkable deposits is 0.30, while the banks’ desired ratio of reserves to checkable
   deposits is 0.20?
   a) 1.50
   b) 2.40
   c) 2.60
   d) 3.33
   e) 5.00

10. If c, the public’s desired ratio of currency to checkable deposits increases, while f, the
    banks’ desired ratio of reserves to deposits remains constant, the bank expansion
    multiplier will
    a) decrease under fractional reserve banking.
    b) decrease under 100% reserve banking.
    c) remain constant under fractional reserve banking.
    d) increase under 100% reserve banking.
    e) increase under fractional reserve banking.

11. From 1955 to 2000, the Bank Expansion Multiplier (adjusted for Sweep Accounts)
    was typically in the range
    a) 1.5 – 2.0
    b) 2.1 – 2.5
    c) 2.6 – 3.0
    d) 3.1 – 3.5
    e) 3.6 or higher
12. One factor that has been used to account for the great increase in the official M1 currency/deposit ratio from 1955 to 1995 is
   a) increased foreign use of US currency
   b) the attractive new design of $5, $10, and $20 bills
   c) increased counterfeiting
   d) a decline in the “underground economy”
   e) the introduction of retail “sweep” accounts

13. The primary factor that accounts for the even greater increase in the official M1 currency/deposit ratio from 1995 to 2007 is
   a) increased foreign use of US currency
   b) the attractive new design of $5, $10, and $20 bills
   c) increased counterfeiting
   d) a decline in the “underground economy”
   e) the introduction of retail “sweep” accounts

14. From 1955 to 1995, the required reserve ratio $f_R$ generally
   a) was constant
   b) declined over time
   c) rose over time
   d) declined to 1975, and then rose
   e) rose to 1975, and then declined.

15. Ben Bernanke’s current term as Chairman of the Federal Reserve Board expires or expired
   a) January 2012 and he may not be renominated for a third term
   b) January 2012 and he may be renominated for a third term.
   c) January 2014 and he may not be renominated for a third term.
   d) January 2014 and he may be renominated for third term.
   e) January 2020

16. If each of the 7 members of the Federal Reserve Board served until his or her term expired, how many members would at present be appointees of President Barack Obama?
   a) 0
   b) 1
   c) 2
   d) 3
   e) 4 or more

17. In fact, how many of the seats on the Federal Reserve Board have either been filled by President Barack Obama or are vacant and therefore could be filled by him immediately?
   (Same key as above)
18. The bulk of the profits of the Federal Reserve System
   a) are paid out as dividends to commercial banks who own stock in the Fed
   b) are paid out as interest to holders of NOW accounts
   c) are turned over to the FDIC’s Bank Insurance Fund
   d) are turned over to the Treasury
   e) none of the above – the Fed rarely makes a profit.

19. If the Fed’s holdings of securities increase by $60 billion, its international reserves
   increase by $40 billion, and loans to member banks decrease by $10 billion, what
   is the change in the monetary base?
   a) -$30 billion
   b) +$10 billion
   c) +$30 billion
   d) +$90 billion
   e) +$110 billion

20. If the Fed’s international reserves increase by $40 billion, and loans to member banks
   decrease by $10 billion, what defensive open market operation is required to
   prevent any change in the monetary base?
   a) -$50 billion
   b) -$30 billion
   c) $0 billion
   d) +$30 billion
   e) +$50 billion

21. An open market purchase of securities by the Fed will tend to
   a) increase yields on the bonds the Fed buys.
   b) decrease yields on the bonds the Fed buys.
   c) increase coupon rates on the bonds the Fed buys.
   d) decrease coupon rates on the bonds the Fed buys.
   e) have no effect on either yields or coupon rates.

22. Traditionally (i.e. before 2008), most of the year-to-year growth in the monetary
   base has been attributable to
   a) loans to securities dealers via repurchase agreements
   b) outright purchases of Treasury securities
   c) discount window loans
   d) purchases of international reserves
   e) provision of currency when banks withdraw funds from their reserve accounts with
      the Fed.
23. Traditionally (i.e. before 2008), the Fed has maintained close **day-to-day** control over the Fed Funds rate through its
   a) loans to securities dealers via repurchase agreements
   b) outright purchases and sales of securities
   c) discount window loans
   d) international reserve transactions
   e) provision of currency when banks withdraw funds from their reserve accounts with the Fed.

24. Between 2007 and 2011, the monetary base
   a) was approximately constant
   b) increased approximately 10%
   c) increased approximately 20%
   d) increased approximately 30%
   e) approximately tripled

25. Bank excess reserves deposited with the Fed pay
   a) zero interest before and after Oct. 2008.
   b) positive interest before and after Oct. 2008.
   c) zero interest before Oct. 2008 but positive interest since.
   d) positive interest before Oct. 2008 but zero interest since.
   e) negative interest, in the form of fees, before and after Oct. 2008.

26. The bulk of the increase in the monetary base between 2007 and 2011 has gone into
   a) increased **M1** balances, in proportion to the base
   b) increased **Currency** holdings by the public
   c) increased **Required Reserve** holdings by banks
   d) increased **Excess Reserve** holdings by banks
   e) None of the above – the base was nearly constant during this period.

27. If the Fed buys $300 billion in new Treasury Securities, but the Treasury holds the proceeds of the sale of these securities on deposit with the Fed, the change in the monetary base will be (holding other factors constant)
   a) -$600 billion
   b) -$300 billion
   c) zero
   d) +$300 billion
   e) +$600 billion
28. If the Fed advances $100 billion to American International Group (AIG), but simultaneously sells $100 billion in Treasury securities, the change in the monetary base will be (holding other factors constant)
   a) -$200 billion
   b) -$100 billion
   c) zero
   d) +$100 billion
   e) +$200 billion

29. A one-time decrease in the nominal money stock will tend to cause the nominal interest rate to
   a) increase in both the short run and the long run
   b) decrease in both the short run and the long run
   c) increase in the short run with no change in the long run
   d) decrease in the short run with no change in the long run
   e) remain unchanged in both the short and long runs.

30. A permanent increase in the rate of monetary expansion will tend to cause the nominal interest rate to
   a) increase in both the short run and the long run
   b) decrease in both the short run and the long run
   c) increase in the short run, but decrease in the long run
   d) decrease in the short run, but increase in the long run
   e) remain unchanged in both the short and long runs.

31. The liquidity effect of an increase in the nominal money supply is the short run
   a) increase in interest rates required for the public to borrow the new money with the intent of spending it
   b) increase in interest rates required for the public to hold the new money
   c) decrease in interest rates required for the public to borrow the new money with the intent of spending it
   d) decrease in interest rates required for the public to hold the new money
   e) increase in beer consumption off campus as the new money is spent.

32. The banking system (Fed plus banks) can hold the real interest rate below its equilibrium value by creating an
   a) excess demand for money
   b) excess supply of money
   c) excess demand for money if inflation exceeds 3%, but an excess supply of money otherwise
   d) excess supply of money if inflation exceeds 3%, but an excess demand for money otherwise
   e) None of the above – this will have no effect on the excess supply or demand for money.
33. If the Fed is following the “Taylor Rule,” and inflation is 3% while output is estimated to be just at its potential level, the Fed Funds Rate target will be
   a) 2%
   b) 4.5%
   c) 5%
   d) 5.5%
   e) 6.5%

34. If the Fed is following the “Taylor Rule,” and inflation is 3% while output is estimated to be 1% below its potential level, the Fed Funds Rate target will be (same key as previous question)

35. If the Fed is following the “Taylor Rule,” and the equilibrium real interest rate is 4%, what steady-state inflation rate will result?
   a) 1% or less
   b) 2%
   c) 3%
   d) 4%
   e) 5% or more

36. The time lag between a problem exists and when policy makers realize it exists is called the
   a) outside lag
   b) implementation lag
   c) recognition lag
   d) distributed lag
   e) decision lag

37. According to Milton Friedman and Anna Schwartz, the long and unpredictable lag between the implementation of monetary policy and its effects on real output tends to
   a) strengthen the effect of stabilization policy
   b) have no effect on the effects of stabilization policy
   c) cause stabilization policy to be counterproductive
   d) cause inflation
   e) cause deflation

38. The average annual CPI-U inflation rate over the past 12 months (3/10 to 3/11 or 2/10 to 2/11) has been in which range?
   a) 0.9% or less
   b) 1.0 – 1.9%
   c) 2.0 – 2.9 %
   d) 3.0 – 3.9 %
   e) 4.0% or more
39. Unemployment benefits in most states, including Ohio, currently extend for up to
   a) 13 weeks
   b) 26 weeks
   c) 39 weeks
   d) 53 weeks
   e) 99 weeks

40. Between 2007 and 2009, the Federal Minimum Wage increased by approximately
   a) 0%
   b) 4%
   c) 8%
   d) 12%
   e) 40%
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