Chapter 15
Multiple Deposit Creation and the Money Supply Process

■ Multiple Choice

1) The government agency that oversees the banking system and is responsible for the conduct of monetary policy in the United States is
(a) the Federal Reserve System.
(b) the United States Treasury.
(c) the U.S. Gold Commission.
(d) the House of Representatives.
(e) none of the above.
Answer: A
Question Status: Previous Edition

2) Which of the following are depository institutions?
(a) Commercial banks
(b) Savings and loan associations
(c) Mutual savings banks
(d) All of the above
(e) Only (a) and (b) of the above
Answer: D
Question Status: Previous Edition

3) Which of the following are depository institutions?
(a) Commercial banks
(b) Credit unions
(c) Federal Reserve banks
(d) All of the above
(e) Only (a) and (b) of the above
Answer: E
Question Status: Previous Edition

4) Which of the following are depository institutions?
(a) Commercial banks
(b) Credit unions
(c) Savings and loan associations
(d) Mutual savings banks
(e) All of the above

Answer: E
Question Status: Previous Edition

5) Individuals that lend funds to a bank by opening a passbook savings account are called
(a) policyholders.
(b) partners.
(c) depositors.
(d) debt holders.

Answer: C
Question Status: Previous Edition

6) Individuals and institutions that hold deposits in banks are called
(a) debt holders.
(b) residual claimants.
(c) bondholders.
(d) depositors.
(e) policyholders.

Answer: D
Question Status: Previous Edition

7) A commercial bank is classified as a depository institution because it
(a) accepts deposits from individuals.
(b) accepts deposits from institutions.
(c) makes loans.
(d) does all of the above.
(e) does both (a) and (b) of the above.

Answer: D
Question Status: Previous Edition

8) A commercial bank is classified as a depository institution because it
(a) accepts deposits from individuals and institutions.
(b) makes loans.
(c) it is responsible for the conduct of monetary policy.
(d) all of the above.
(e) does both (a) and (b) of the above.

Answer: E
Question Status: Previous Edition

9) Borrowers from depository institutions include
(a) individuals who borrow from credit unions.
(b) institutions that borrow from banks.
(c) institutions that issue bonds purchased by savings and loan associations.
(d) all of the above.
(e) only (a) and (b) of the above.
Answer: D
Question Status: Previous Edition

10) Borrowers from depository institutions include
(a) institutions that borrow from savings and loans.
(b) individuals who borrow from mutual savings banks.
(c) institutions that issue bonds purchased by banks.
(d) all of the above.
(e) only (a) and (b) of the above.
Answer: D
Question Status: Previous Edition

11) The four players in the money supply process include
(a) banks, depositors, borrowers, and the U.S. Treasury.
(b) banks, depositors, the central bank, and the U.S. Treasury.
(c) banks, depositors, the central bank, and borrowers.
(d) banks, borrowers, the central bank, and the U.S. Treasury.
Answer: C
Question Status: Previous Edition

12) Of the four players in the money supply process, most observers agree that the most important player is
(a) the United States Treasury.
(b) the Federal Reserve System.
(c) the FDIC.
(d) the Office of Thrift Supervision.
Answer: B
Question Status: Previous Edition

13) Of the four players in the money supply process, most observers agree that the most important player is
(a) banks.
(b) borrowers.
(c) depositors.
(d) the Fed.
Answer: D
Question Status: Previous Edition

14) Federal Reserve Assets include
(a) Treasury securities.
(b) Treasury deposits.
(c) discount loans.
(d) both (a) and (b) of the above.
(e) both (a) and (c) of the above.

Answer: E
Question Status: Study Guide

15) Federal Reserve assets include
(a) currency in circulation.
(b) reserves.
(c) discount loans.
(d) all of the above.
(e) both (a) and (c) of the above.

Answer: C
Question Status: New

16) Federal reserve assets include
(a) government securities.
(b) discount loans.
(c) currency in circulation.
(d) all of the above.
(e) both (a) and (b) of the above.

Answer: E
Question Status: New

17) Federal reserve assets include
(a) government securities.
(b) bank reserves.
(c) currency in circulation.
(d) all of the above.
(e) both (a) and (b) of the above.

Answer: A
Question Status: New

18) Both _____ and _____ are Federal Reserve assets.
(a) currency in circulation; discount loans
(b) currency in circulation; government securities
(c) government securities; discount loans
(d) government securities; bank reserves
(e) discount loans; bank reserves

Answer: C
Question Status: New

19) The monetary liabilities of the Federal Reserve include
(a) government securities and discount loans.
(b) currency in circulation and reserves.
(c) government securities and reserves.
(d) currency in circulation and discount loans.
Answer: B
Question Status: Previous Edition

20) Both _____ and _____ are monetary liabilities of the Fed.
(a) government securities; discount loans
(b) currency in circulation; bank reserves
(c) government securities; bank reserves
(d) discount loans; bank securities
(e) discount loans; currency in circulation
Answer: B
Question Status: New

21) The sum of the Fed's monetary liabilities and the U.S. Treasury's monetary liabilities is called
(a) the money supply.
(b) currency in circulation.
(c) bank reserves.
(d) the monetary base.
Answer: D
Question Status: Previous Edition

22) The monetary base consists of
(a) currency in circulation and Federal Reserve notes.
(b) currency in circulation and government securities.
(c) currency in circulation and reserves.
(d) reserves and government securities.
(e) currency in circulation and discount loans.
Answer: C
Question Status: Study Guide

23) The monetary base less the U.S. Treasury's monetary liabilities equals
(a) the Fed's monetary liabilities.
(b) currency in circulation.
(c) the sum of deposits at the Fed and vault cash.
(d) none of the above.
Answer: A
Question Status: Previous Edition

24) The sum of vault cash and bank deposits at Federal Reserve banks is called
(a) the monetary base.
(b) the money supply.
(c) reserves.
(d) discount loans.

Answer: C
Question Status: Previous Edition

25) The sum of vault cash, deposits at Federal Reserve banks, and currency in circulation is called
(a) the money supply.
(b) the monetary base.
(c) Federal Reserve liabilities.
(d) near-cash.

Answer: B
Question Status: Previous Edition

26) The monetary base is the sum of
(a) vault cash, deposits at the Fed, and currency in circulation.
(b) Federal Reserve currency in circulation and Treasury currency in circulation.
(c) vault cash, deposits at the Fed, and Federal Reserve currency in circulation.
(d) government securities and currency in circulation.

Answer: A
Question Status: Previous Edition

27) The monetary base is the sum of
(a) Federal Reserve currency in circulation and Treasury currency in circulation.
(b) vault cash, deposits at the Fed, and Federal Reserve currency in circulation.
(c) the Fed's monetary liabilities and the U.S. Treasury's monetary liabilities.
(d) none of the above.

Answer: C
Question Status: Previous Edition

28) The sum of currency in circulation and total reserves is called
(a) the nonborrowed base.
(b) the borrowed base.
(c) the monetary base.
(d) the money supply.

Answer: C
Question Status: Previous Edition

29) The sum of currency in circulation and total reserves is called
(a) high-powered money.
(b) the monetary base.
(c) the borrowed base.
(d) both (a) and (b) of the above.

Answer: D
Question Status: Previous Edition

30) The monetary base minus currency in circulation equals
(a) reserves.
(b) the borrowed base.
(c) the nonborrowed base.
(d) discount loans.
Answer: A
Question Status: Previous Edition

31) The monetary base less reserves equals
(a) reserves.
(b) currency in circulation.
(c) the nonborrowed base.
(d) discount loans.
Answer: B
Question Status: Previous Edition

32) High-powered money less reserves equals
(a) reserves.
(b) currency in circulation.
(c) the monetary base.
(d) the nonborrowed base.
Answer: B
Question Status: Previous Edition

33) Total reserves minus bank deposits with the Fed equals
(a) vault cash.
(b) excess reserves.
(c) required reserves.
(d) currency in circulation.
(e) Treasury deposits.
Answer: A
Question Status: New

34) Reserves equal
(a) bank deposits at the Fed plus currency in circulation.
(b) vault cash plus currency in circulation.
(c) Treasury deposits plus vault cash.
(d) Treasury deposits plus bank deposits at the Fed.
(e) vault cash plus bank deposits at the Fed.
Answer: E
Question Status: New

35) Reserves are equal to the sum of
(a) required reserves and excess reserves.
(b) required reserves and vault cash reserves.
(c) excess reserves and vault cash reserves.
(d) vault cash and total reserves.
(e) excess reserves and total reserves.
Answer: A
Question Status: New

36) Total reserves are the sum of _____ and _____.
(a) excess reserves; borrowed reserves.
(b) required reserves; currency in circulation
(c) vault cash; excess reserves
(d) vault cash; bank deposits with the Fed
(e) excess reserves; required reserves
Answer: E
Question Status: New

37) Excess reserves are equal to
(a) total reserves minus discount loans.
(b) vault cash plus deposits with Federal Reserve banks minus required reserves.
(c) vault cash minus required reserves.
(d) deposits with the Fed minus vault cash plus required reserves.
Answer: B
Question Status: Previous Edition

38) Vault cash plus bank deposits with the Fed minus required reserves equals
(a) the monetary base.
(b) the money supply.
(c) excess reserves.
(d) total reserves.
(e) required reserves.
Answer: C
Question Status: Study Guide

39) The amount of deposits that banks must hold in reserve is
(a) excess reserves.
(b) required reserves.
(c) total reserves.
(d) vault cash.
(e) bank deposits with the Fed.
Answer: B
Question Status: New

40) The percentage of deposits that banks must hold in reserve in the
(a) excess reserve ratio.
(b) required reserve ratio.
(c) total reserve ratio.
(d) vault cash ratio.
(e) currency ratio.
Answer: B
Question Status: New

41) An increase in government securities held by the Fed leads to
(a) a decline in the monetary base.
(b) a decline in the money supply.
(c) an increase in the money supply.
(d) only (a) and (b) of the above.
Answer: C
Question Status: Previous Edition

42) An increase in government securities held by the Fed leads to
(a) an increase in the monetary base.
(b) an increase in the money supply.
(c) a decline in the money supply.
(d) only (a) and (b) of the above.
Answer: D
Question Status: Previous Edition

43) A decrease in government securities held by the Fed leads to
(a) a decline in the monetary base.
(b) a decline in the money supply.
(c) an increase in the money supply.
(d) only (a) and (b) of the above.
Answer: D
Question Status: Previous Edition

44) A decrease in government securities held by the Fed leads to
(a) an increase in the monetary base.
(b) an increase in the money supply.
(c) a decline in the money supply.
(d) only (a) and (b) of the above.
Answer: C
Question Status: New

45) By making discount loans
(a) the Fed provides reserves to the banking system.
(b) the Fed earns interest income.
(c) the Fed increases its assets.
(d) all of the above.
(e) both (a) and (b) of the above.
Answer: D
Question Status: New

46) By making discount loans
(a) the Fed provides reserves to the banking system.
(b) the Fed earns interest income.
(c) the Treasury increases its deposits.
(d) all of the above.
(e) both (a) and (b) of the above.
Answer: E
Question Status: New

47) The interest rate the Fed charges banks borrowing from the Fed is the
(a) federal funds rate.
(b) Treasury bill rate.
(c) discount rate.
(d) prime rate.
(e) mortgage rate.
Answer: C
Question Status: New

48) An increase in discount loans by the Fed leads to
(a) a decline in the monetary base.
(b) a decline in the money supply.
(c) an increase in the money supply.
(d) all of the above.
(e) only (a) and (b) of the above.
Answer: C
Question Status: Previous Edition

49) An increase in discount loans by the Fed leads to
(a) an increase in the monetary base.
(b) an increase in the money supply.
(c) a decline in the money supply.
(d) all of the above.
(e) only (a) and (b) of the above.
Answer: E
Question Status: Previous Edition

50) A decrease in discount loans by the Fed leads to
(a) an increase in the monetary base.
(b) a decline in the money supply.
(c) an increase in the money supply.
(d) all of the above.
(e) only (a) and (b) of the above.
Answer: B
Question Status: Previous Edition

51) A decrease in discount loans by the Fed leads to
(a) a decline in the monetary base.
(b) an increase in the money base.
(c) a decline in the money supply.
(d) only (a) and (b) of the above.
(e) only (a) and (c) of the above.
Answer: E
Question Status: Previous Edition

52) Which of the following are included in the monetary base?
(a) Federal Reserve notes outstanding
(b) Bank deposits at the Fed
(c) Treasury currency that is not held at the Fed
(d) All of the above
Answer: D
Question Status: Previous Edition

53) Increases in the Fed's holding of which of the following will lead to an increase in the monetary base?
(a) Securities
(b) Discount loans
(c) Both (a) and (b) of the above
(d) Neither (a) nor (b) of the above
Answer: C
Question Status: Previous Edition

54) When the Federal Reserve purchases a government bond in the open market,
(a) reserves in the banking system increase.
(b) reserves in the banking system decline.
(c) Federal Reserve liabilities remain unchanged.
(d) Federal Reserve liabilities decline.
(e) both (b) and (d) of the above occur.
Answer: A
Question Status: Previous Edition

55) When the Federal Reserve _____ a government bond in the open market, reserves in the banking system _____.
(a) purchases; increase
(b) purchase; decline
(c) purchase; remain unchanged
(d) sells; increase
Answer: A
Question Status: Previous Edition

56) When the Federal Reserve purchases a government bond from a bank,
(a) reserves in the banking system decline.
(b) reserves in the banking system increase.
(c) Federal Reserve liabilities remain unchanged.
(d) Federal Reserve liabilities decline.
Answer: B
Question Status: Previous Edition

57) When the Federal Reserve _____ a government bond from a bank, reserves in the banking system _____.
(a) purchases; decline
(b) purchases; increase
(c) purchases; remain unchanged
(d) sells; increase
Answer: B
Question Status: Previous Edition

58) When the Fed buys $100 worth of bonds from the First National Bank, reserves in the banking system
(a) increase by $100.
(b) increase by more than $100.
(c) decrease by $100.
(d) decrease by more than $100.
Answer: A
Question Status: Previous Edition

59) When the Fed sells $100 worth of bonds to the First National Bank, reserves in the banking system
(a) increase by $100.
(b) increase by more than $100.
(c) decrease by $100.
(d) decrease by more than $100.
Answer: C
Question Status: Previous Edition

60) When the Fed purchases $100 of bonds from a bank, the bank may either deposit the check it receives in its account with the Fed or cash it for currency, which will be counted as vault cash. Either action means that the bank will find itself with

(a) additional reserves.
(b) more assets.
(c) both (a) and (b).
(d) none of the above.

Answer: A
Question Status: Previous Edition

61) If the Federal Reserve purchases securities from a bank, then

(a) reserves in the banking system increase.
(b) Federal Reserve liabilities increase.
(c) Federal Reserve assets increase.
(d) all of the above.
(e) both (a) and (c) of the above.

Answer: D
Question Status: Previous Edition

62) If a person selling bonds to the Fed cashes the Fed's check,

(a) reserves remain unchanged, but currency in circulation declines.
(b) reserves remain unchanged, but currency in circulation increases.
(c) currency in circulation remains unchanged, but reserves increase.
(d) currency in circulation remains unchanged, but reserves decline.

Answer: B
Question Status: Previous Edition

63) If a person selling bonds to the Fed cashes the Fed's check, then reserves _____, but currency in circulation _____.

(a) remain unchanged; declines
(b) remain unchanged; increases
(c) decline; remains unchanged
(d) increase; remains unchanged

Answer: B
Question Status: Previous Edition

64) The effect of an open market purchase on reserves differs depending on how the seller of the bonds keeps the proceeds. If the proceeds are kept in _____, the open market purchase has no effect on reserves; if the proceeds are kept as _____, reserves increase by the amount of the open market purchase.

(a) deposits; deposits
(b) deposits; currency
(c) currency; deposits
(d) currency; currency

Answer: C
Question Status: Previous Edition

65) The effect of an open market purchase on reserves differs depending on how the seller of the bonds keeps the proceeds. If the proceeds are kept in currency, the open market purchase _____ reserves; if the proceeds are kept as deposits, the open market purchase _____ reserves.

(a) has no effect on; has no effect on
(b) has no effect on; increases
(c) increases; has no effect on
(d) increases; increases

Answer: B
Question Status: Previous Edition

66) When an individual sells a $100 bond to the Fed, she may either deposit the check she receives or cash it for currency. In both cases

(a) reserves increase.
(b) high-powered money increases.
(c) reserves decrease.
(d) high-powered money decreases.

Answer: B
Question Status: Previous Edition

67) If a member of the nonbank public sells a government bond to the Federal Reserve in exchange for currency,

(a) the monetary base will remain unchanged, but reserves will fall.
(b) the monetary base will remain unchanged, but reserves will rise.
(c) the monetary base will rise, but currency in circulation will remain unchanged.
(d) the monetary base will rise, but reserves will remain unchanged.

Answer: D
Question Status: Previous Edition

68) If a member of the nonbank public sells a government bond to the Federal Reserve in exchange for currency, the monetary base will _____, but reserves will _____.

(a) remain unchanged; rise
(b) remain unchanged; fall
(c) rise; remain unchanged
(d) fall; remain unchanged

Answer: C
Question Status: Previous Edition

69) If a member of the nonbank public sells a government bond to the Federal Reserve in exchange for currency,

(a) reserves will fall.
(b) the monetary base will fall.
(c) reserves will remain unchanged.
(d) both (a) and (b) of the above will occur.

Answer: C
Question Status: Previous Edition

70) If a member of the nonbank public sells a government bond to the Federal Reserve in exchange for currency,

(a) the monetary base will rise.
(b) reserves will remain unchanged.
(c) reserves will rise.
(d) both (a) and (b) of the above will occur.

Answer: D
Question Status: Previous Edition

71) For which of the following is the change in reserves necessarily different from the change in the monetary base?

(a) Open market purchases from a bank
(b) Open market purchases from an individual who deposits the check in a bank
(c) Open market purchases from an individual who cashes the check
(d) Open market sale to a bank

Answer: C
Question Status: Previous Edition

72) When the Federal Reserve sells a government bond in the open market,

(a) Federal Reserve liabilities remain unchanged.
(b) reserves in the banking system increase.
(c) reserves in the banking system decline.
(d) both (a) and (b) occur.

Answer: C
Question Status: Previous Edition

73) When the Federal Reserve _____ a government bond in the open market, reserves in the banking system _____.

(a) sells; increase
(b) sells; decline
(c) purchases; remain unchanged
(d) sells; remain unchanged
(e) purchases; decline

Answer: B
Question Status: Revised

74) When the Federal Reserve sells a government bond to a bank,

(a) Federal Reserve liabilities remain unchanged.
(b) reserves in the banking system increase.
(c) reserves in the banking system decline.
(d) reserves in the banking system remain unchanged.

Answer: C
Question Status: Previous Edition

75) When the Federal Reserve _____ a government bond to a bank, reserves in the banking system _____.

(a) sells; increase
(b) sells; decline
(c) purchases; remain unchanged
(d) sells; remain unchanged
(e) purchases; decline

Answer: B
Question Status: Revised

76) The Fed can _____ the level of reserves of the banking system by _____ government bonds.

(a) decrease; buying
(b) decrease; selling
(c) decrease; issuing
(d) increase; issuing
(e) increase; selling

Answer: B
Question Status: Previous Edition

77) The purchase of a government bond from the Federal Reserve with currency by a member of the nonbank public

(a) decreases the monetary base and reserves.
(b) increases the monetary base and reserves.
(c) increases the monetary base, leaving reserves unchanged.
(d) decreases the monetary base, leaving reserves unchanged.
(e) none of the above will occur.

Answer: D
Question Status: Study Guide

78) If a member of the nonbank public purchases a government bond from the Federal Reserve with currency,

(a) the monetary base will remain unchanged, but reserves will fall.
(b) the monetary base will remain unchanged, but reserves will rise.
(c) the monetary base will fall, but currency in circulation will remain unchanged.
(d) the monetary base will fall, but reserves will remain unchanged.

Answer: D
Question Status: Previous Edition

79) If a member of the nonbank public purchases a government bond from the Federal Reserve with currency, the monetary base will _____, but reserves will _____.

(a) remain unchanged; fall
(b) remain unchanged; rise
(c) rise; remain unchanged
(d) fall, remain unchanged

Answer: D
Question Status: Revised

80) If a member of the nonbank public purchases a government bond from the Federal Reserve with currency,

(a) reserves will fall.
(b) the monetary base will fall.
(c) reserves will remain unchanged.
(d) both (a) and (b) will occur.
(e) both (b) and (c) will occur.

Answer: E
Question Status: Previous Edition

81) The effect of open market operations on _____ is much more uncertain than the effect on _____.

(a) high-powered money; reserves
(b) high-powered money; high-powered money
(c) reserves; reserves
(d) reserves; high-powered money

Answer: D
Question Status: Previous Edition

82) A purchase of foreign currency deposits by the Fed

(a) increases the monetary base.
(b) decreases the monetary base.
(c) has no effect on the monetary base.
(d) increases discount lending.
(e) reduces currency in circulation.

Answer: A
Question Status: New

83) The monetary base can be increased by

(a) a decrease in discount lending.
(b) the purchase of foreign currency deposits by the Fed.
(c) an increase in Treasury deposits at the Fed.
(d) a shift of currency into deposits.
(e) a shift of deposits into currency.

Answer: B
Question Status: New

84) The monetary base is reduced by

(a) an extension of discount loans.
(b) a sale of foreign currency deposits by the Fed.
(c) a reduction of Treasury deposits at the Fed.
(d) a shift of currency into deposits.
(e) a shift of deposits into currency.

Answer: B
Question Status: New

85) When a member of the nonbank public withdraws currency from a bank,
(a) both the monetary base and bank reserves fall.
(b) the monetary base falls, but bank reserves remain unchanged.
(c) bank reserves fall, but the monetary base remains unchanged.
(d) both currency in circulation and the monetary base rise.
Answer: C
Question Status: Previous Edition

86) When a member of the nonbank public deposits currency into her bank account, then the monetary base will _____, but reserves will _____.
(a) remain unchanged; rise
(b) remain unchanged; fall
(c) rise; remain unchanged
(d) fall; remain unchanged
Answer: A
Question Status: Previous Edition

87) When a member of the nonbank public withdraws currency from her bank account,
(a) both the monetary base and bank reserves fall.
(b) both the monetary base and bank reserves rise.
(c) the monetary base falls, but bank reserves remain unchanged.
(d) bank reserves fall, but the monetary base remains unchanged.
Answer: D
Question Status: Previous Edition

88) When a member of the nonbank public deposits currency into her bank account,
(a) both the monetary base and bank reserves fall.
(b) both the monetary base and bank reserves rise.
(c) the monetary base falls, but bank reserves remain unchanged.
(d) bank reserves rise, but the monetary base remains unchanged.
Answer: D
Question Status: Previous Edition

89) When the Fed extends a $100 discount loan to the First National Bank, reserves in the banking system
(a) increase by $100.
(b) increase by more than $100.
(c) decrease by $100.
(d) decrease by more than $100.
Answer: A
Question Status: Previous Edition

90) All else the same, when the Fed calls in a $100 discount loan previously extended to the First National Bank, reserves in the banking system

(a) increase by $100.
(b) increase by more than $100.
(c) decrease by $100.
(d) decrease by more than $100.

Answer: C
Question Status: Previous Edition

91) When the Fed extends discount loans,

(a) bank reserves increase, but the monetary base declines.
(b) both bank reserves and the monetary base increase.
(c) both bank reserves and the monetary base decline.
(d) bank reserves decline, but the monetary base remains unchanged.
(e) bank reserves increase, but the monetary base remains unchanged.

Answer: B
Question Status: Previous Edition

92) When the Federal Reserve extends a discount loan to a bank,

(a) both the monetary base and reserves increase.
(b) the increase in the monetary base equals the increase in the borrowed base.
(c) the monetary base changes one-for-one with the change in borrowings from the Fed.
(d) all of the above occur.

Answer: D
Question Status: Previous Edition

93) When the Federal Reserve extends a discount loan to a bank,

(a) both the monetary base and reserves decrease.
(b) the increase in the monetary base equals the increase in the borrowed base.
(c) the monetary base changes two-for-one with the change in borrowings from the Fed.
(d) all of the above occur.

Answer: B
Question Status: Previous Edition

94) When the Federal Reserve extends a discount loan to a bank,

(a) both the monetary base and reserves increase.
(b) the increase in the monetary base equals the increase in the borrowed base.
(c) the monetary base changes two-for-one with the change in borrowings from the Fed.
(d) only (a) and (b) of the above occur.

Answer: D
Question Status: Previous Edition

95) When the Federal Reserve extends a discount loan to a bank, the monetary base _____ and reserves _____.

(a) remains unchanged; decrease
(b) remains unchanged; increase
(c) increases; increase
(d) increases; remain unchanged

Answer: C
Question Status: Previous Edition

96) A simultaneous purchase of government bonds and extension of discount loans by the Fed

(a) unambiguously increases the money supply.
(b) unambiguously decreases the money supply.
(c) has no effect on the money supply.
(d) has an uncertain effect on the money supply because the two actions are offsetting.
(e) decreases the monetary base.

Answer: A
Question Status: Study Guide

97) A simultaneous extension of discount loans and sale of government bonds by the Fed

(a) unambiguously increases the money supply.
(b) unambiguously decreases the money supply.
(c) has an uncertain effect on the money supply because the two actions are offsetting.
(d) decreases the monetary base.
(e) both (b) and (d) of the above.

Answer: C
Question Status: Study Guide

98) When the Fed wants to increase the level of reserves in the banking system, it can

(a) purchase government bonds.
(b) sell government bonds.
(c) extend discount loans to banks.
(d) do both (a) and (c).

Answer: D
Question Status: Previous Edition

99) When the Fed wants to increase the level of reserves of the banking system, it can

(a) buy government bonds from the general public.
(b) buy government bonds from banks.
(c) increase discount loans to banks.
(d) do any of the above.
(e) do only (a) and (b) of the above.

Answer: D
Question Status: Previous Edition

100) When the Fed wants to increase the level of reserves in the banking system, it can
(a) issue government bonds.
(b) sell government bonds.
(c) extend discount loans to banks.
(d) do both (a) and (c).
Answer: C
Question Status: Previous Edition

101) When the Fed wants to increase the level of reserves of the banking system, it can
(a) buy government bonds from the general public.
(b) buy government bonds from banks.
(c) issue government bonds.
(d) do any of the above.
(e) do only (a) and (b) of the above.
Answer: E
Question Status: Previous Edition

102) If the Fed decides to reduce bank reserves, it can
(a) purchase government bonds.
(b) extend discount loans to banks.
(c) sell government bonds.
(d) print more currency.
(e) purchase foreign currency.
Answer: C
Question Status: Study Guide

103) When the Fed wants to decrease the level of reserves in the banking system, it can
(a) purchase government bonds.
(b) sell government bonds.
(c) extend discount loans to banks.
(d) do both (a) and (c).
Answer: B
Question Status: Previous Edition

104) When the Fed wants to decrease the level of reserves of the banking system, it can
(a) buy government bonds from the general public.
(b) sell government bonds to banks.
(c) increase discount loans to banks.
(d) do any of the above.
(e) do only (a) and (b) of the above.
Answer: B
Question Status: Previous Edition

105) When the Fed wants to decrease the level of reserves in the banking system, it can
(a) issue government bonds.
(b) sell government bonds.
(c) recall discount loans from banks.
(d) do both (a) and (c).
(e) do both (b) and (c).
Answer: E
Question Status: Previous Edition

106) When the Fed wants to decrease the level of reserves of the banking system, it can
(a) sell government bonds to the general public.
(b) sell government bonds to banks.
(c) recall its previous issues of government bonds.
(d) do any of the above.
(e) do only (a) and (b) of the above.
Answer: E
Question Status: Previous Edition

107) When the Fed wants to decrease the level of reserves of the banking system, it can
(a) sell government bonds to the general public.
(b) sell government bonds to banks.
(c) decrease discount loans to banks.
(d) do any of the above.
(e) do only (a) and (b) of the above.
Answer: D
Question Status: Previous Edition

108) The Fed can decrease the level of reserves of the banking system by
(a) buying government bonds.
(b) selling government bonds.
(c) increasing discount loans to banks.
(d) doing either (a) or (c) of the above.
Answer: B
Question Status: Previous Edition

109) There are two ways in which the Fed can provide additional reserves to the banking system: it can _____ government bonds or it can _____ discount loans to commercial banks.
(a) sell; extend
(b) sell; call in
(c) purchase; extend
(d) purchase; call in
Answer: C
Question Status: Previous Edition

110) Two ways in which the Fed can provide additional reserves to the banking system are by _____ government bonds or by _____ foreign currency deposits.

(a) purchasing; purchasing
(b) purchasing; selling
(c) selling; purchasing
(d) selling; selling
(e) issuing; purchasing

Answer: A
Question Status: New

111) A purchase of government bonds by the Fed

(a) is called an open market purchase.
(b) increases the monetary base, all else being the same.
(c) increases discount loans, all else being the same.
(d) does all of the above.
(e) does only (a) and (b) of the above.

Answer: E
Question Status: Revised

112) A purchase of government bonds by the Fed

(a) is called an open market issue.
(b) increases the monetary base, all else being the same.
(c) decreases discount loans, all else being the same.
(d) does only (a) and (b) of the above.

Answer: B
Question Status: Revised

113) A purchase of government bonds by the Fed

(a) is called an open market purchase.
(b) decreases the monetary base, all else being the same.
(c) decreases discount loans, all else being the same.
(d) does all of the above.

Answer: A
Question Status: Revised

114) A sale of government bonds by the Fed

(a) is called an open market sale.
(b) reduces the monetary base, all else being the same.
(c) reduces the borrowed base, all else being the same.
(d) does all of the above.
(e) does only (a) and (b) of the above.

Answer: E
Question Status: Study Guide

115) A sale of government bonds by the Fed
(a) is called an open market sale.
(b) increases the monetary base, all else being the same.
(c) reduces the discount loans, all else being the same.
(d) does only (a) and (b) of the above.
(e) does only (a) and (c) of the above.
Answer: A
Question Status: Revised

116) A sale of government bonds by the Fed
(a) is called an open market issue.
(b) decreases the monetary base, all else being the same.
(c) increases discount loans, all else being the same.
(d) does only (a) and (b) of the above.
Answer: B
Question Status: Revised

117) A purchase of government bonds by the Fed, all else the same,
(a) increases the monetary base.
(b) increases discount loans.
(c) reduces the level of high-powered money.
(d) does all of the above.
(e) does only (a) and (b) of the above.
Answer: A
Question Status: Revised

118) A sale of government bonds by the Fed, all else the same,
(a) reduces the monetary base.
(b) reduces discount loans.
(c) increases the level of high-powered money.
(d) does only (a) and (b) of the above.
Answer: A
Question Status: Revised

119) A sale of government bonds by the Fed, all else the same,
(a) increases the monetary base.
(b) increases the level of high-powered money.
(c) increases float.
(d) does none of the above.
Answer: D
Question Status: Revised

120) Float increases when

(a) the U.S. Treasury withdraws funds from its deposits with the Fed.
(b) the Fed purchases securities.
(c) the Fed sells securities.
(d) the Treasury sells foreign currency.
(e) the weather slows check clearing.

Answer: E
Question Status: Revised

121) A decrease in _____ leads to an equal, though temporary, _____ in the monetary base.

(a) float; increase
(b) float; decrease
(c) Treasury deposits; decrease
(d) discount loans; increase

Answer: B
Question Status: Previous Edition

122) An increase in which of the following leads to an increase in the monetary base?

(a) Float
(b) Foreign currency deposits
(c) U.S. Treasury deposits at the Fed
(d) All of the above
(e) Only (a) and (b) of the above

Answer: E
Question Status: Revised

123) An increase in which of the following leads to a reduction in the monetary base?

(a) Foreign currency deposits
(b) Float
(c) U.S. Treasury deposits at the Fed
(d) All of the above

Answer: C
Question Status: Revised

124) The monetary base declines when

(a) the Fed purchases securities.
(b) the Fed purchases foreign currency.
(c) float increases.
(d) the Fed sells securities.

Answer: D
Question Status: Previous Edition

125) Factors that add to the monetary base include
(a) an increase in the Fed's holding of Treasury securities.
(b) an increase in the Fed's holding of discount loans.
(c) an increase in the Fed's holding of foreign currency deposits.
(d) all of the above.
Answer: D
Question Status: Revised

126) Factors that add to the monetary base include
(a) an increase in the Fed's holding of Treasury securities.
(b) an increase in the Fed's holding of discount loans.
(c) an increase in Treasury deposits at the Fed.
(d) all of the above.
(e) only (a) and (b) of the above.
Answer: E
Question Status: Revised

127) Factors that add to the monetary base include
(a) a decrease in the Fed's holding of Treasury securities.
(b) a decrease in the Fed's holding of discount loans.
(c) an increase in Treasury deposits at the Fed.
(d) an increase in the Fed's holding of foreign currency deposits.
(e) all of the above.
Answer: D
Question Status: Revised

128) Factors that cause the monetary base to decline include
(a) an increase in the Fed's holding of Treasury securities.
(b) an increase in the Fed's holding of discount loans.
(c) an increase in Treasury deposits at the Fed.
(d) all of the above.
Answer: C
Question Status: Previous Edition

129) Factors that cause the monetary base to increase include
(a) a decrease in the Fed's holding of Treasury securities.
(b) a decrease in the Fed's holding of discount loans.
(c) an increase in Treasury currency outstanding.
(d) all of the above.
Answer: C
Question Status: Previous Edition

130) Factors that cause the monetary base to decline include
(a) an increase in the Fed's holding of Treasury securities.
(b) a decrease in the Fed's holding of discount loans.
(c) a decrease in Treasury deposits at the Fed.
(d) all of the above.
Answer: B
Question Status: Previous Edition

131) Factors that cause the monetary base to increase include
(a) a decrease in the Fed's holding of Treasury securities.
(b) an increase in the Fed's holding of discount loans.
(c) an increase in Treasury deposits at the Fed.
(d) all of the above.
Answer: B
Question Status: Previous Edition

132) Factors that cause the monetary base to increase include
(a) an increase in the Fed's holding of Treasury securities.
(b) a decrease in the Fed's holding of discount loans.
(c) an increase in Treasury deposits at the Fed.
(d) all of the above.
Answer: A
Question Status: Previous Edition

133) Factors that cause the monetary base to increase include
(a) an increase in the Fed's holding of Treasury securities.
(b) an increase in the Fed's holding of discount loans.
(c) a decrease in Treasury currency outstanding.
(d) both (a) and (b) of the above.
Answer: D
Question Status: Previous Edition

134) Factors that cause the monetary base to decline include
(a) a decrease in the Fed's holding of Treasury securities.
(b) a decrease in the Fed's holding of discount loans.
(c) an increase in Treasury currency outstanding.
(d) only (a) and (b) of the above
Answer: D
Question Status: Previous Edition

135) Factors that cause the monetary base to decline include

(a) a decrease in the Fed's holding of Treasury securities.
(b) a decrease in the Fed's holding of discount loans.
(c) a decrease in Treasury currency outstanding.
(d) all of the above.
(e) only (a) and (b) of the above

Answer: D
Question Status: Previous Edition

136) A decrease in _____ leads to an equal, though temporary, _____ in the monetary base.

(a) float; increase
(b) Treasury deposits; increase
(c) Treasury deposits; decrease
(d) discount loans; increase

Answer: B
Question Status: Previous Edition

137) A decrease in _____ leads to an equal, though temporary, _____ in the monetary base.

(a) float; increase
(b) float; decrease
(c) foreign currency deposits; increase
(d) securities; increase

Answer: B
Question Status: Revised

138) A decrease in _____ leads to an equal and permanent _____ in the monetary base.

(a) float; increase
(b) float; decrease
(c) securities; increase
(d) securities; decrease

Answer: D
Question Status: Previous Edition

139) An increase in _____ leads to an equal and permanent _____ in the monetary base.

(a) float; increase
(b) float; decrease
(c) securities; increase
(d) securities; decrease

Answer: C
Question Status: Previous Edition

140) The monetary base is positively related to
(a) securities and discount loans.
(b) foreign currency deposits.
(c) float.
(d) all of the above.

Answer: D
Question Status: Revised

141) The monetary base is positively related to
(a) securities and discount loans.
(b) foreign currency deposits.
(c) Treasury deposits at the Fed.
(d) all of the above.
(e) only (a) and (b) of the above.

Answer: E
Question Status: Revised

142) The monetary base is positively related to
(a) Treasury deposits at the Fed.
(b) foreign currency deposits.
(c) discount loans.
(d) all of the above.
(e) only (b) and (c) of the above.

Answer: E
Question Status: Revised

143) The monetary base is negatively related to
(a) securities and discount loans.
(b) foreign currency deposits.
(c) Treasury deposits at the Fed.
(d) all of the above.

Answer: C
Question Status: Revised

144) The monetary base is negatively related to
(a) Treasury deposits at the Fed.
(b) foreign currency deposits.
(c) discount loans.
(d) all of the above.
(e) only (a) and (c) of the above.

Answer: A
Question Status: Revised

145) The monetary base rises when there is an increase in
(a) Treasury currency outstanding.
(b) float.
(c) Treasury deposits at the Fed.
(d) all of the above.
(e) only (a) and (b) of the above.

Answer: E
Question Status: Revised

146) The monetary base rises when there is an increase in
(a) Treasury currency outstanding.
(b) float.
(c) Treasury deposits at the Fed.
(d) all of the above.
(e) either (a) or (b) of the above.

Answer: E
Question Status: Previous Edition

147) Which of the following are true statements concerning the monetary base?
(a) The factor that most affects the monetary base is the Fed's holdings of securities, which are completely controlled by the Fed through its open market operations.
(b) Factors not controlled by the Fed (e.g., float) undergo substantial short-run variations and can be important sources of fluctuations in the monetary base over time periods as short as a week.
(c) Although float and Treasury deposits at the Fed undergo substantial short-run fluctuation, which complicates control of the monetary base, they do not prevent the Fed from accurately controlling it.
(d) All of the above are true.

Answer: D
Question Status: Previous Edition

148) Which of the following are true statements concerning the monetary base?
(a) The factor that most affects the monetary base is the Fed's holdings of foreign currency deposits.
(b) Factors not controlled by the Fed (e.g., float) are very stable and are therefore unimportant sources of fluctuations in the monetary base.
(c) Float and Treasury deposits do not prevent the Fed from accurately controlling the monetary base.
(d) All of the above are true.

Answer: C
Question Status: Revised

149) When the Fed supplies the banking system with an extra dollar of reserves, deposits increase by more than one dollar—a process called

(a) extra deposit creation.
(b) multiple deposit creation.
(c) expansionary deposit creation.
(d) stimulative deposit creation.

Answer: B
Question Status: Previous Edition

150) When the Fed supplies the banking system with an extra dollar of reserves, deposits ______ by _____ than one dollar—a process called multiple deposit creation.

(a) increase; less
(b) increase; more
(c) decrease; less
(d) decrease; more

Answer: B
Question Status: Previous Edition

151) A bank cannot increase its loans by an amount greater than

(a) the total reserves it has before it makes the loan.
(b) 10 percent of its net worth.
(c) 5 percent of its net worth.
(d) the excess reserves it has before it makes the loan.

Answer: D
Question Status: Previous Edition

152) A single bank cannot loan more than its excess reserves because

(a) the bank will lose these reserves as the deposits created by the loan find their way to other banks.
(b) the Federal Reserve will refuse to release these reserves to other banks, thereby punishing the bank.
(c) it is a violation of the Federal Reserve's Regulation M.
(d) of neither (a) nor (b) of the above.

Answer: A
Question Status: Previous Edition

153) A single bank cannot loan more than its excess reserves because

(a) the bank will lose these reserves as the deposits created by the loan find their way to other banks.
(b) the Federal Reserve will refuse to release these reserves to other banks, thereby punishing the bank.
(c) of both (a) and (b) of the above.
(d) of neither (a) nor (b) of the above.

Answer: A
Question Status: Previous Edition

154) If the required reserve ratio is equal to 10 percent, a single bank can increase its loans up to a maximum amount equal to

(a) its excess reserves.
(b) 10 times its excess reserves.
(c) 10 percent of its excess reserves.
(d) its total reserves.

Answer: A
Question Status: Previous Edition

155) If the required reserve ratio is equal to 20 percent, then a single bank can increase its loans up to a maximum amount equal to

(a) five times its excess reserves.
(b) 20 percent of its excess reserves.
(c) 2 1/2 times its excess reserves.
(d) none of the above.

Answer: D
Question Status: Previous Edition

156) If the required reserve ratio is equal to 10 percent, a single bank can increase its loans up to a maximum amount equal to

(a) 10 percent of its excess reserves.
(b) its excess reserves.
(c) 10 times its excess reserves.
(d) its total reserves.

Answer: B
Question Status: Previous Edition

157) If the required reserve ratio is equal to 20 percent, a single bank can increase its loans up to a maximum amount equal to

(a) 5 times its excess reserves.
(b) 2.5 times its excess reserves.
(c) its excess reserves.
(d) 20 percent of its excess reserves.

Answer: C
Question Status: Previous Edition

158) The First National Bank of Hometown has excess reserves of $150. Assuming a required reserve ratio of 10%, the First National Bank can lend

(a) $1500.
(b) $750.
(c) $150.
(d) $135.
(e) $0.

Answer: C
Question Status: Study Guide

159) In the simple deposit expansion model, if the Fed purchases $100 worth of bonds from a bank that previously had no excess reserves, the bank can now increase its loans by

(a) $10.
(b) $100.
(c) $100 times the reciprocal of the required reserve ratio.
(d) $100 times the required reserve ratio.

Answer: B
Question Status: Previous Edition

160) If the Fed purchases $100 worth of bonds from a bank that previously had no excess reserves, deposits in the banking system can potentially increase by

(a) $10.
(b) $100.
(c) $100 times the reciprocal of the required reserve ratio.
(d) $100 times the required reserve ratio.

Answer: C
Question Status: Previous Edition

161) If the Fed purchases $100 worth of bonds from a bank that previously had no excess reserves, deposits in the banking system can potentially increase by

(a) $10.
(b) $100.
(c) $100 times the deposit expansion multiplier.
(d) $100 times the required reserve ratio.

Answer: C
Question Status: Previous Edition

162) In the simple deposit expansion model, if the Fed extends a $100 discount loan to a bank that previously had no excess reserves, the bank can now increase its loans by

(a) $10.
(b) $100.
(c) $100 times the reciprocal of the required reserve ratio.
(d) $100 times the required reserve ratio.

Answer: B
Question Status: Previous Edition

163) If the Fed extends a $100 discount loan to a bank that previously had no excess reserves, deposits in the banking system can potentially increase by

(a) $10.
(b) $100.
(c) $100 times the reciprocal of the required reserve ratio.
(d) $100 times the required reserve ratio.

Answer: C
Question Status: Previous Edition

164) If a bank chooses to purchase securities rather than extend loans with its excess reserves,
(a) the expansion of deposits in the banking system will be dampened.
(b) the effect on deposits will be the same as if the bank had held its excess reserves in vault cash.
(c) the effect on deposits will be the same as if the bank had extended loans.
(d) all of the above.
(e) only (a) and (b) of the above.
Answer: C
Question Status: Previous Edition

165) The banking system as a whole can increase its loans by a maximum amount equal to
(a) its excess reserves.
(b) a multiple of the initial level of excess reserves in the banking system.
(c) only a small fraction of the initial level of excess reserves in the banking system.
(d) none of the above.
Answer: B
Question Status: Previous Edition

166) The banking system as a whole can generate a multiple expansion of deposits because
(a) a single bank can loan out more than its excess reserves.
(b) when a bank loses its excess reserves, these reserves do not leave the banking system.
(c) the simple deposit multiplier is a fraction smaller than one.
(d) of none of the above.
Answer: B
Question Status: Previous Edition

167) The formula for the simple deposit multiplier can be expressed as
(a) $\Delta R = (1 \div r_D) \times \Delta D$
(b) $\Delta D = (1 \div r_D) \times \Delta R$
(c) $\Delta r = (1 \div r_T) \times \Delta T$
(d) $\Delta R = (1 \div r_T) \times \Delta D$
Answer: B
Question Status: Previous Edition

168) In the simple model of multiple deposit creation in which banks do not hold excess reserves, the increase in checkable deposits equals the product of the change in excess reserves and the
(a) reciprocal of the required reserve ratio.
(b) the required reserve ratio.
(c) reciprocal of the simple deposit multiplier.
(d) discount rate.
Answer: A
Question Status: Previous Edition

169) In the simple model of multiple deposit creation in which banks do not hold excess reserves, the increase in checkable deposits equals the product of the change in excess reserves and the

(a) reciprocal of the excess reserve ratio.
(b) the simple deposit expansion multiplier.
(c) reciprocal of the simple deposit multiplier.
(d) discount rate.

Answer: B
Question Status: Previous Edition

170) The simple deposit multiplier can be expressed as the ratio of

(a) the change in reserves in the banking system divided by the change in deposits.
(b) the change in deposits divided by the change in reserves in the banking system.
(c) the required reserve ratio divided by the change in reserves in the banking system.
(d) the change in deposits divided by the required reserve ratio.

Answer: B
Question Status: Previous Edition

171) If reserves in the banking system increase by $100, then checkable deposits will increase by $1000 in the simple model of deposit creation when the required reserve ratio is

(a) 0.01.
(b) 0.10.
(c) 0.05.
(d) 0.20.

Answer: B
Question Status: Previous Edition

172) If reserves in the banking system increase by $100, then checkable deposits will increase by $500 in the simple model of deposit creation when the required reserve ratio is

(a) 0.01.
(b) 0.10.
(c) 0.05.
(d) 0.20.

Answer: D
Question Status: Previous Edition

173) If the required reserve ratio is 10 percent, the simple deposit multiplier is

(a) 5.0.
(b) 2.5.
(c) 100.0.
(d) 10.0.

Answer: D
Question Status: Previous Edition

174) If the required reserve ratio is 15 percent, the simple deposit multiplier is approximately
(a) 15.0.
(b) 1.5.
(c) 6.67.
(d) 3.33.
Answer: C
Question Status: Previous Edition

175) If the required reserve ratio is 20 percent, the simple deposit multiplier is
(a) 5.0.
(b) 2.5.
(c) 4.0.
(d) 10.0.
Answer: A
Question Status: Previous Edition

176) If the required reserve ratio is 25 percent, the simple deposit multiplier is
(a) 5.0.
(b) 2.5.
(c) 4.0.
(d) 10.0.
Answer: C
Question Status: Revised

177) A simple deposit multiplier equal to one implies a required reserve ratio equal to
(a) 100 percent.
(b) 50 percent.
(c) 25 percent.
(d) 0 percent.
Answer: A
Question Status: Previous Edition

178) A simple deposit multiplier equal to two implies a required reserve ratio equal to
(a) 100 percent.
(b) 50 percent.
(c) 25 percent.
(d) 0 percent.
Answer: B
Question Status: Previous Edition

179) A simple deposit multiplier equal to four implies a required reserve ratio equal to
(a) 100 percent.
(b) 50 percent.
(c) 25 percent.
(d) 0 percent.
Answer: C
Question Status: Previous Edition

180) If the banking system has excess reserves of $75, and the required reserve ratio is 20%, the potential expansion of checkable deposits is
(a) $75.
(b) $750.
(c) $37.50.
(d) $375.
(e) $0.
Answer: D
Question Status: Study Guide

181) If the required reserve ratio is 20 percent and the Fed increases reserves by $100, checkable deposits can potentially expand by
(a) $100.
(b) $250.
(c) $500.
(d) $1,000.
Answer: C
Question Status: Previous Edition

182) If the required reserve ratio is 10 percent and the Fed increases reserves by $100, checkable deposits can potentially expand by
(a) $100.
(b) $250.
(c) $500.
(d) $1,000.
Answer: D
Question Status: Previous Edition

183) If the required reserve ratio is 25 percent, and the Fed purchases $1,000 of foreign currency deposits, the potential expansion of checkable deposits is
(a) $25,000.
(b) $10,000.
(c) $4,000.
(d) $2,500.
(e) $1,000.
Answer: C
Question Status: New

184) In the simple deposit expansion model, an expansion in checkable deposits of $1,000 when the required reserve ratio is equal to 20 percent implies that the Fed
(a) sold $200 in government bonds.
(b) sold $500 in government bonds.
(c) purchased $200 in government bonds.
(d) purchased $500 in government bonds.
Answer: C
Question Status: Previous Edition

185) In the simple deposit expansion model, an expansion in checkable deposits of $1,000 when the required reserve ratio is equal to 10 percent implies that the Fed
(a) sold $1,000 in government bonds.
(b) sold $100 in government bonds.
(c) purchased $1000 in government bonds.
(d) purchased $100 in government bonds.
Answer: D
Question Status: Previous Edition

186) In the simple deposit expansion model, a decline in checkable deposits of $1,000 when the required reserve ratio is equal to 20 percent implies that the Fed
(a) sold $200 in government bonds.
(b) sold $500 in government bonds.
(c) purchased $200 in government bonds.
(d) purchased $500 in government bonds.
Answer: A
Question Status: Previous Edition

187) In the simple deposit expansion model, a decline in checkable deposits of $1,000 when the required reserve ratio is equal to 10 percent implies that the Fed
(a) sold $1,000 in government bonds.
(b) sold $100 in government bonds.
(c) purchased $1,000 in government bonds.
(d) purchased $100 in government bonds.
Answer: B
Question Status: Previous Edition

188) In the simple deposit expansion model, a decline in checkable deposits of $500 when the required reserve ratio is equal to 10 percent implies that the Fed
(a) sold $500 in government bonds.
(b) sold $50 in government bonds.
(c) purchased $50 in government bonds.
(d) purchased $500 in government bonds.
Answer: B
Question Status: Previous Edition

189) In the simple deposit expansion model, a decline in checkable deposits of $500 when the required reserve ratio is equal to 20 percent implies that the Fed
(a) sold $250 in government bonds.
(b) sold $100 in government bonds.
(c) sold $50 in government bonds.
(d) purchased $100 in government bonds.
Answer: B
Question Status: Previous Edition

190) If reserves in the banking system increase by $100, then checkable deposits will increase by $400 in the simple model of deposit creation when the required reserve ratio is

(a) 0.01.
(b) 0.10.
(c) 0.25.
(d) 0.20.

Answer: C
Question Status: Previous Edition

191) If reserves in the banking system increase by $100, then checkable deposits will increase by $667 in the simple model of deposit creation when the required reserve ratio is

(a) 0.01.
(b) 0.15.
(c) 0.05.
(d) 0.20.

Answer: B
Question Status: Previous Edition

192) If reserves in the banking system increase by $100, then checkable deposits will increase by $100 in the simple model of deposit creation when the required reserve ratio is

(a) 1.00.
(b) 0.01.
(c) 0.10.
(d) 0.20.

Answer: A
Question Status: Previous Edition

193) If reserves in the banking system increase by $100, then checkable deposits will increase by $2,000 in the simple model of deposit creation when the required reserve ratio is

(a) 0.01.
(b) 0.10.
(c) 0.05.
(d) 0.20.

Answer: C
Question Status: Previous Edition

194) If reserves in the banking system increase by $200, then checkable deposits will increase by $500 in the simple model of deposit creation when the required reserve ratio is

(a) 0.04.
(b) 0.40.
(c) 0.25.
(d) 0.50.

Answer: B
Question Status: Previous Edition

195) If a bank has excess reserves of \$10,000 and demand deposit liabilities of \$80,000, and if the reserve requirement is 20 percent, then the bank has actual reserves of
(a) \$16,000.
(b) \$6,000.
(c) \$26,000.
(d) \$20,000.
(e) \$36,000.
Answer: C
Question Status: Previous Edition

196) If a bank has excess reserves of \$20,000 and demand deposit liabilities of \$80,000, and if the reserve requirement is 20 percent, then the bank has total reserves of
(a) \$16,000.
(b) \$6,000.
(c) \$26,000.
(d) \$20,000.
(e) \$36,000.
Answer: E
Question Status: Previous Edition

197) If a bank has excess reserves of \$5,000 and demand deposit liabilities of \$80,000, and if the reserve requirement is 20 percent, then the bank has actual reserves of
(a) \$11,000.
(b) \$21,000.
(c) \$26,000.
(d) \$20,000.
Answer: B
Question Status: Previous Edition

198) If a bank has excess reserves of \$15,000 and demand deposit liabilities of \$80,000, and if the reserve requirement is 20 percent, then the bank has total reserves of
(a) \$11,000.
(b) \$21,000.
(c) \$31,000.
(d) \$41,000.
Answer: C
Question Status: Previous Edition

199) If a bank has excess reserves of \$4,000 and demand deposit liabilities of \$100,000, and if the reserve requirement is 15 percent, then the bank has actual reserves of
(a) \$17,000.
(b) \$19,000.
(c) \$24,000.
(d) \$29,000.
Answer: B
Question Status: Previous Edition

200) If a bank has excess reserves of $4,000 and demand deposit liabilities of $100,000, and if the reserve requirement is 10 percent, then the bank has actual reserves of

(a) $24,000.
(b) $19,000.
(c) $14,000.
(d) $29,000.

Answer: C
Question Status: Previous Edition

201) If a bank has excess reserves of $7,000 and demand deposit liabilities of $100,000, and if the reserve requirement is 15 percent, then the bank has actual reserves of

(a) $17,000.
(b) $22,000.
(c) $27,000.
(d) $29,000.

Answer: B
Question Status: Previous Edition

202) If a bank has excess reserves of $7,000 and demand deposit liabilities of $100,000, and if the reserve requirement is 10 percent, then the bank has actual reserves of

(a) $27,000.
(b) $17,000.
(c) $14,000.
(d) $22,000.

Answer: B
Question Status: Previous Edition

203) A bank has excess reserves of $6,000 and demand deposit liabilities of $100,000 when the required reserve ratio is 20 percent. If the reserve ratio is raised to 25 percent, the bank's excess reserves will be

(a) $1,000.
(b) –$1,000.
(c) $5,000.
(d) –$5,000.

Answer: A
Question Status: Previous Edition

204) A bank has excess reserves of $4,000 and demand deposit liabilities of $100,000 when the required reserve ratio is 20 percent. If the reserve ratio is raised to 25 percent, the bank's excess reserves will be

(a) $1,000.
(b) –$1,000.
(c) $5,000.
(d) –$5,000.

Answer: B
Question Status: Previous Edition

205) A bank has excess reserves of $10,000 and demand deposit liabilities of $100,000 when the required reserve ratio is 20 percent. If the reserve ratio is raised to 25 percent, the bank's excess reserves will be

(a) $1,000.
(b) –$1,000.
(c) $5,000.
(d) –$5,000.

Answer: C
Question Status: Previous Edition

206) A bank has no excess reserves and demand deposit liabilities of $100,000 when the required reserve ratio is 20 percent. If the reserve ratio is raised to 25 percent, the bank's excess reserves will now be

(a) $1,000.
(b) –$1,000.
(c) $5,000.
(d) –$5,000.

Answer: D
Question Status: Previous Edition

207) A bank has excess reserves of $1,000 and demand deposit liabilities of $80,000 when the reserve requirement is 20 percent. If the reserve requirement is lowered to 10 percent, the bank's excess reserves will be

(a) $1,000.
(b) $8,000.
(c) $9,000.
(d) $17,000.

Answer: C
Question Status: Previous Edition

208) A bank has excess reserves of $1,000 and demand deposit liabilities of $80,000 when the reserve requirement is 25 percent. If the reserve requirement is lowered to 20 percent, the bank's excess reserves will be

(a) $1,000.
(b) $5,000.
(c) $8,000.
(d) $9,000.

Answer: B
Question Status: Previous Edition

209) Decisions by depositors to increase their holdings of _____, or of banks to hold _____ will result in a smaller expansion of deposits than the simple model predicts.

(a) deposits; required reserves
(b) deposits; excess reserves
(c) currency; required reserves
(d) currency; excess reserves

Answer: D
Question Status: Previous Edition

210) Decisions by depositors to increase their holdings of _____, or of banks to hold _____ will result in a _____ expansion of deposits than the simple model predicts.

(a) deposits; required reserves; larger
(b) deposits; excess reserves; smaller
(c) currency; required reserves; larger
(d) currency; excess reserves; smaller

Answer: D
Question Status: Previous Edition

211) Decisions by depositors to increase their holdings of _____, or of banks to hold excess reserves will result in a _____ expansion of deposits than the simple model predicts.

(a) deposits; smaller
(b) deposits; larger
(c) currency; smaller
(d) currency; larger

Answer: C
Question Status: Previous Edition

212) Decisions by depositors to increase their holdings of _____, or of banks to hold _____ reserves will result in a _____ expansion of deposits than the simple model predicts.

(a) deposits; excess; smaller
(b) deposits; required; larger
(c) currency; excess; smaller
(d) currency; required; larger

Answer: C
Question Status: Previous Edition

213) Decisions by _____ about their holdings of currency and by _____ about their holdings of excess reserves affect the money supply.

(a) borrowers; depositors
(b) banks; depositors
(c) depositors; borrowers
(d) depositors; banks

Answer: D
Question Status: Previous Edition

214) For a banking system with no excess reserves, a shift from deposits to currency held by the public

(a) decreases bank reserves.
(b) decreases bank deposits.
(c) decreases bank loans.
(d) all of the above.
(e) both (a) and (b) of the above.

Answer: D
Question Status: New

215) For a banking system with no excess reserves, a shift from deposits to currency held by the public
(a) decreases bank reserves.
(b) decreases bank deposits.
(c) decreases the monetary base.
(d) all of the above.
(e) both (a) and (b) of the above.
Answer: E
Question Status: New

216) For a banking system with no excess reserves, a shift from deposits to currency held by the public
(a) decreases bank reserves.
(b) decreases bank loans.
(c) decreases the monetary base.
(d) all of the above.
(e) both (a) and (b) of the above.
Answer: E
Question Status: New

217) For a banking system with no excess reserves, a shift from currency to deposits by the public
(a) increases bank reserves.
(b) increases potential bank deposits.
(c) increases potential bank loans.
(d) all of the above.
(e) both (a) and (b) of the above.
Answer: D
Question Status: New

218) For a banking system with no excess reserves, a shift from currency to deposits by the public
(a) increases bank reserves.
(b) increases the monetary base.
(c) increases Fed holdings of foreign currency deposits.
(d) all of the above.
(e) both (a) and (b) of the above.
Answer: A
Question Status: New

219) For a banking system with no excess reserves, a shift from currency to deposits by the public
(a) increases bank reserves.
(b) increases the monetary base.
(c) increases potential bank loans.
(d) all of the above.
(e) both (a) and (c) of the above.
Answer: E
Question Status: New

220) For a banking system with no excess reserves, a shift from currency to deposits by the public
(a) decreases bank reserves.
(b) increases the monetary base.
(c) increases potential bank loans.
(d) all of the above.
(e) both (a) and (b) of the above.
Answer: C
Question Status: New

Internet Appendix

221) Which is the most important category of Fed assets?
(a) Securities
(b) Discount loans
(c) Gold and SDR certificates
(d) Cash items in the process of collection
Answer: A
Question Status: Previous Edition

222) The most important category of assets on the Fed's balance sheet is
(a) Discount loans.
(b) Securities.
(c) Gold.
(d) Cash items in the process of collection.
Answer: B
Question Status: Previous Edition

223) The Fed's holdings of securities consist primarily of
(a) Treasury securities, but also in the past have included bankers' acceptances.
(b) municipal securities, but also in the past have included bankers' acceptances.
(c) bankers' acceptances, but also in the past have included Treasury securities.
(d) Treasury securities, but also in the past have included municipal securities.
Answer: A
Question Status: Previous Edition

224) The volume of loans that the Fed makes to banks is affected by the Fed's setting of the interest rate on these loans, called the
(a) federal funds rate.
(b) prime rate.
(c) discount rate.
(d) interbank rate.
Answer: C
Question Status: Previous Edition

225) Special Drawing Rights (SDRs) are issued to governments by the _____ to settle international debts and have replaced _____ in international transactions.
(a) Federal Reserve System; gold
(b) Federal Reserve System; dollars
(c) International Monetary Fund; gold
(d) International Monetary Fund; dollars
Answer: C
Question Status: Previous Edition

226) When the Treasury acquires gold or SDRs, it issues certificates to the _____, which are a claim on the gold or SDRs, and in turn is credited with deposit balances at the _____.
(a) Federal Reserve System; Fed
(b) Federal Reserve System; IMF
(c) International Monetary Fund; Fed
(d) International Monetary Fund; IMF
Answer: A
Question Status: Revised

227) On the Fed's balance sheet, other Federal Reserve assets include:
(a) Fed-owned deposits denominated in foreign currencies.
(b) Fed-owned bonds denominated in foreign currencies.
(c) physical assets such as computers, office equipment, or buildings owned by the Federal Reserve.
(d) all of the above.
(e) only (a) and (b) of the above.
Answer: D
Question Status: Previous Edition

228) Which of the following are assets on the Fed's balance sheet?
(a) Deferred availability cash items
(b) Cash items in the process of collection
(c) U.S. Treasury deposits
(d) Each of the above
(e) Only (a) and (b) of the above
Answer: B
Question Status: Previous Edition

229) Which of the following are assets on the Fed's balance sheet?
(a) Treasury deposits with the Fed
(b) Foreign deposits with the Fed
(c) Discount loans
(d) Only (a) and (b) of the above
(e) Only (a) and (c) of the above
Answer: C
Question Status: Previous Edition

230) Which of the following are assets on the Fed's balance sheet?
(a) U.S. Treasury securities
(b) U.S. Treasury deposits
(c) Discount loans
(d) All of the above
(e) Only (a) and (c) of the above

Answer: E
Question Status: New

231) Which of the following are assets on the Fed's balance sheet?
(a) Discount loans
(b) Cash items in the process of collection
(c) U.S. Treasury deposits
(d) All of the above
(e) Only (a) and (b) of the above

Answer: E
Question Status: Previous Edition

232) Which of the following are assets on the Fed's balance sheet?
(a) Federal Reserve notes outstanding
(b) U.S. Treasury deposits
(c) Discount loans
(d) Only (a) and (c) of the above

Answer: C
Question Status: Previous Edition

233) Which of the following are assets on the Fed's balance sheet?
(a) Discount loans
(b) Deferred availability cash items
(c) U.S. Treasury deposits
(d) Only (a) and (b) of the above

Answer: A
Question Status: Previous Edition

234) Which of the following are assets on the Fed's balance sheet?
(a) U.S. Treasury deposits
(b) U.S. Treasury currency (coins)
(c) U.S. Treasury securities
(d) Only (a) and (c) of the above
(e) Only (b) and (c) of the above

Answer: E
Question Status: Previous Edition

235) Which of the following are assets on the Fed's balance sheet?
(a) Discount loans
(b) Cash items in the process of collection
(c) U.S. Treasury currency
(d) All of the above

Answer: D
Question Status: Previous Edition

236) Which of the following are assets on the Fed's balance sheet?
(a) Cash items in the process of collection
(b) Discount loans
(c) Deferred availability cash items
(d) Only (a) and (b) of the above

Answer: D
Question Status: Previous Edition

237) Which of the following are assets on the Fed's balance sheet?
(a) Securities
(b) Deferred availability cash items
(c) Discount loans
(d) Only (a) and (b) of the above
(e) Only (a) and (c) of the above

Answer: E
Question Status: Previous Edition

238) Which of the following are assets on the Fed's balance sheet?
(a) Deferred availability cash items
(b) Bank deposits
(c) Federal Reserve notes outstanding
(d) All of the above
(e) None of the above

Answer: E
Question Status: Previous Edition

239) Which of the following are assets on the Fed's balance sheet?
(a) Deferred availability cash items
(b) Coin
(c) Federal Reserve notes outstanding
(d) All of the above

Answer: B
Question Status: Previous Edition

240) Which of the following are assets on the Fed's balance sheet?
(a) Deferred availability cash items
(b) Bank deposits
(c) Securities
(d) All of the above
(e) None of the above

Answer: C
Question Status: Previous Edition

241) Which of the following are not assets on the Fed's balance sheet?
(a) Federal Reserve notes outstanding
(b) U.S. Treasury deposits
(c) Discount loans
(d) Only (a) and (b) of the above

Answer: D
Question Status: Previous Edition

242) Which of the following are not assets on the Fed's balance sheet?
(a) Discount loans
(b) Deferred availability cash items
(c) U.S. Treasury deposits
(d) Only (a) and (c) of the above
(e) Only (b) and (c) of the above

Answer: E
Question Status: Previous Edition

243) Which of the following are not assets on the Fed's balance sheet?
(a) U.S. Treasury deposits
(b) U.S. Treasury currency (coins)
(c) U.S. Treasury securities
(d) Only (a) and (c) of the above
(e) Only (b) and (c) of the above.

Answer: A
Question Status: Previous Edition

244) Which of the following are not assets on the Fed's balance sheet?
(a) Discount loans
(b) U.S. Treasury deposits
(c) Cash items in the process of collection
(d) U.S. Treasury bills

Answer: B
Question Status: Previous Edition

245) Which of the following are not assets on the Fed's balance sheet?
(a) Securities
(b) Discount loans
(c) Cash items in the process of collection
(d) Deferred availability cash items

Answer: D
Question Status: Previous Edition

246) Foreign and other deposits at the Federal Reserve are typically owned by
(a) foreign governments.
(b) foreign central banks.
(c) international agencies such as the World Bank.
(d) all of the above.
(e) only (a) and (b) of the above.

Answer: D
Question Status: Previous Edition

247) Which of the following liabilities are found on the Fed's balance sheet?
(a) Bank deposits
(b) U.S. Treasury deposits
(c) Coin
(d) Both (a) and (b) of the above
(e) Both (a) and (c) of the above

Answer: D
Question Status: Previous Edition

248) Which of the following are liabilities on the Fed's balance sheet?
(a) Deferred availability cash items
(b) Bank deposits
(c) Securities
(d) All of the above
(e) Only (a) and (b) of the above

Answer: E
Question Status: Previous Edition

249) Which of the following are liabilities on the Fed's balance sheet?
(a) Cash items in the process of collection
(b) Discount loans
(c) Deferred availability cash items
(d) Only (a) and (b) of the above

Answer: C
Question Status: Previous Edition

250) Which of the following are liabilities on the Fed's balance sheet?
(a) Federal Reserve notes outstanding
(b) Discount loans
(c) U.S. Treasury deposits
(d) Only (a) and (b) of the above
(e) Only (a) and (c) of the above

Answer: E
Question Status: Previous Edition

251) Which of the following are liabilities on the Fed's balance sheet?
(a) Deferred availability cash items
(b) Bank deposits
(c) Federal Reserve notes outstanding
(d) All of the above
(e) Only (a) and (c) of the above

Answer: D
Question Status: Previous Edition

252) Which of the following are liabilities on the Fed's balance sheet?
(a) U.S. Treasury securities
(b) U.S. Treasury deposits
(c) Discount loans
(d) Only (a) and (c) of the above

Answer: B
Question Status: Previous Edition

253) Which of the following are liabilities on the Fed's balance sheet?
(a) Discount loans
(b) Cash items in the process of collection
(c) U.S. Treasury deposits
(d) All of the above
(e) Only (a) and (b) of the above

Answer: C
Question Status: Previous Edition

254) Which of the following are liabilities on the Fed's balance sheet?
(a) Federal Reserve notes outstanding
(b) U.S. Treasury deposits
(c) Discount loans
(d) Only (a) and (b) of the above
(e) Only (b) and (c) of the above

Answer: D
Question Status: Previous Edition

255) Which of the following are liabilities on the Fed's balance sheet?
(a) Discount loans
(b) Deferred availability cash items
(c) U.S. Treasury deposits
(d) Only (a) and (c) of the above
(e) Only (b) and (c) of the above

Answer: E
Question Status: Previous Edition

256) Which of the following are liabilities on the Fed's balance sheet?
(a) U.S. Treasury deposits
(b) U.S. Treasury currency (coins)
(c) U.S. Treasury securities
(d) Only (a) and (b) of the above

Answer: A
Question Status: Previous Edition

257) Which of the following are liabilities on the Fed's balance sheet?
(a) Bank deposits
(b) Deferred availability cash items
(c) U.S. Treasury currency
(d) Only (a) and (b) of the above

Answer: D
Question Status: Previous Edition

258) Which of the following are not liabilities on the Fed's balance sheet?
(a) Federal Reserve notes outstanding
(b) U.S. Treasury deposits
(c) Discount loans
(d) Only (a) and (b) of the above

Answer: C
Question Status: Previous Edition

259) Which of the following are not liabilities on the Fed's balance sheet?
(a) Discount loans
(b) Cash items in the process of collection
(c) U.S. Treasury deposits
(d) Only (a) and (b) of the above

Answer: D
Question Status: Previous Edition

260) Which of the following are not liabilities on the Fed's balance sheet?
(a) U.S. Treasury deposits
(b) U.S. Treasury currency (coins)
(c) U.S. Treasury securities
(d) Only (b) and (c) of the above
Answer: D
Question Status: Previous Edition

261) Which of the following are not liabilities on the Fed's balance sheet?
(a) Discount loans
(b) Bank deposits
(c) Deferred availability cash items
(d) U.S. Treasury deposits
Answer: A
Question Status: Previous Edition

262) The monetary base rises when
(a) the Fed purchases securities.
(b) the Ford Motor Company purchases PCs.
(c) the Fed purchases oak file cabinets.
(d) all of the above occur.
(e) only (a) and (c) of the above occurs.
Answer: E
Question Status: Previous Edition

263) The monetary base rises when
(a) the Fed sells securities.
(b) the Fed purchases computers.
(c) float declines.
(d) all of the above occur.
Answer: B
Question Status: Previous Edition

264) An increase in which of the following leads to an increase in the monetary base?
(a) Float
(b) Discount loans
(c) U S. Treasury deposits
(d) Only (a) and (b) of the above
(e) Only (a) and (c) of the above
Answer: D
Question Status: Previous Edition

265) When the Fed purchases artwork to decorate the conference room at the Federal Reserve Bank of Kansas City,

(a) reserves rise, but the monetary base falls.
(b) reserves fall.
(c) currency in circulation falls.
(d) the monetary base rises.

Answer: D
Question Status: Previous Edition

266) When the Fed purchases new personal computers for its research staff,

(a) the monetary base rises.
(b) the monetary base rises, but reserves fall.
(c) the monetary base falls, but reserves rise.
(d) the monetary base falls.
(e) the purchase has no effect on the monetary base.

Answer: A
Question Status: Previous Edition

267) An increase in gold and SDR accounts leads to a(n) _____ in the monetary base.

(a) multiple increase
(b) fractional increase
(c) equal increase
(d) fractional decrease
(e) multiple decrease

Answer: C
Question Status: Previous Edition

268) A Fed purchase of gold, SDRs, a deposit (asset) denominated in a foreign currency or any other asset (such as a computer) is just

(a) an open market purchase of these assets, raising the monetary base.
(b) an open market sale of these assets, raising the monetary base.
(c) an open market purchase of these assets, lowering the monetary base.
(d) an open market sale of these assets, lowering the monetary base.

Answer: A
Question Status: Previous Edition

269) An increase in Treasury deposits at the Fed

(a) causes the monetary base to increase.
(b) causes the monetary base to decrease.
(c) causes Fed assets to increase but has no effect on the monetary base.
(d) causes Fed assets to decrease but has no effect on the monetary base.

Answer: B
Question Status: Previous Edition

270) An increase in U.S. Treasury deposits at the Fed reduces both _____ and the _____.
(a) reserves; monetary base
(b) Fed liabilities; money multiplier
(c) Fed assets; monetary base
(d) Fed assets; money multiplier
Answer: A
Question Status: Previous Edition

271) U.S. Treasury deposits at the Fed are a(n) _____ for the Fed but a(n) _____ for the Treasury. Thus an increase in U.S. Treasury deposits _____ the monetary base.
(a) liability; asset; increases
(b) liability; asset; decreases
(c) asset; liability; increases
(d) asset; liability; decreases
Answer: B
Question Status: Previous Edition

272) Float is defined as
(a) bank deposits minus U.S. Treasury deposits.
(b) reserves minus currency in circulation.
(c) cash items in the process of collection minus deferred availability cash items.
(d) deferred availability cash items minus cash items in the process of collection.
(e) U.S. Treasury deposits minus bank deposits.
Answer: C
Question Status: Previous Edition

273) A reduction in which of the following leads to a decline in the monetary base?
(a) U.S. Treasury deposits at the Fed
(b) Foreign deposits at the Fed
(c) Float
(d) Both (a) and (b) of the above
Answer: C
Question Status: Previous Edition

274) An increase in _____ leads to an equal, though temporary, increase in the monetary base.
(a) deferred availability cash items
(b) Treasury currency outstanding
(c) float
(d) Treasury deposits with the Fed
Answer: C
Question Status: Previous Edition

275) An increase in _____ leads to an equal, though temporary, _____ in the monetary base.
(a) float; increase
(b) float; decrease
(c) deferred availability cash items; increase
(d) deferred availability cash items; decrease

Answer: A
Question Status: Previous Edition

276) An increase in _____ leads to an equal, though temporary, _____ in the monetary base.
(a) cash items in the process of collection; decrease
(b) cash items in the process of collection; increase
(c) deferred availability cash items; increase
(d) both (a) and (c) of the above

Answer: B
Question Status: Previous Edition

277) An increase in which of the following leads to a decline in the monetary base?
(a) Float
(b) Discount loans
(c) Foreign deposits at the Fed
(d) SDRs

Answer: C
Question Status: Previous Edition

■ Essay Questions

1) Explain three ways by which the Federal Reserve System can increase the monetary base. Why is the effect of Federal Reserve actions on bank reserves less exact than the effect on the monetary base?

Answer: The Fed can increase the monetary base by purchasing government bonds and foreign currency deposits, and by extending discount loans. If the person selling the security chooses to keep the proceeds in currency, bank reserves do not increase. Because the Fed cannot control the distribution of the monetary base between reserves and currency, it has less control over reserves than the base.

2) Assume that no banks hold excess reserves, and the public holds no currency. If a bank sells a \$100 security to the Fed, show, using T-accounts, what happens to this bank and two additional steps in the deposit expansion process, assuming a 10% reserve requirement. How much do deposits and loans increase for the banking system when the process is completed?

Answer: The bank first changes a security for reserves, and then lends the reserves, creating loans.

Step 1

Bank A

Assets		**Liabilities**
Securities	−\$100	
Reserves	+\$100	

Step 2

Bank A

Assets		Liabilities	
Reserves	−$100		
Loans	+$100		

Next, the proceeds are deposited in Bank B, and then Bank B lends it $90 of excess reserves.

Step 3

Bank B

Assets		Liabilities	
Reserves	+$100	Deposits	+$100

Step 4

Bank B

Assets		Liabilities	
Reserves	−$90		
Loans	+$90		

Next, the loan proceeds are deposited in Bank C, which then lends its excess reserves

Step 5

Bank C

Assets		Liabilities	
Reserves	+$90	Deposits	+$90

Step 6

Bank C

Assets		Liabilities	
Reserves	−$81		
Loans	+$81		

For the banking system, both loans and deposits increase by $1000.

3) Explain two reasons why the Fed does not have complete control over the level of bank deposits and lows. Explain how a change in either factor affects the deposit expansion process.

Answer: The Fed does not completely control the level of bank deposits and loans because banks can hold excess reserves and the public can change its currency holdings. A change in either factor changes the deposit expansion process. An increase in either excess reserves or currency reduces the amount by which deposits and loans are increased.