PRACTICE- Unit 11 AP Economics

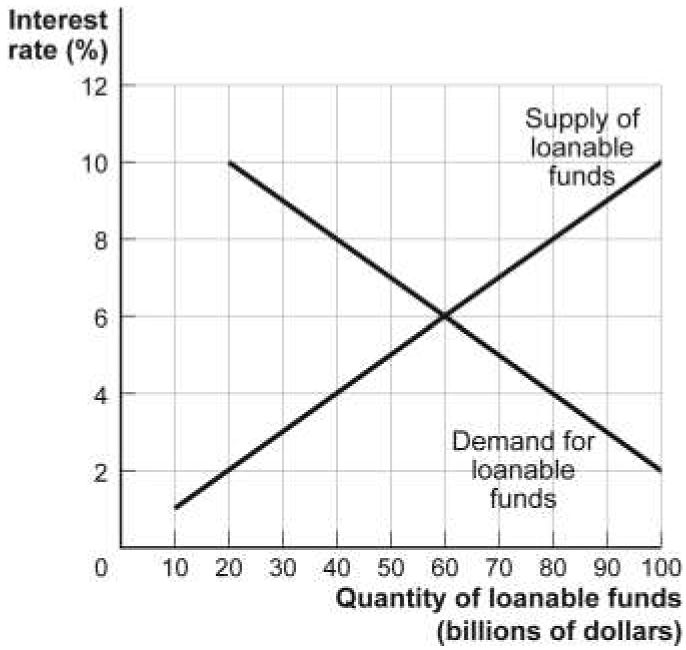
Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. The term “liquid asset” means:
   A. that the asset is used in a barter exchange.
   B. that the asset is used as the medium of exchange.
   C. that the asset is readily convertible to cash.
   D. that the asset can be purchased if the market interest rate is low.
   E. that the asset can be purchased only if the price is below equilibrium.

   Scenario 25-2: Money Creation
   The reserve requirement is 20%, and Leroy deposits his $1,000 check received as a graduation gift in his checking account. The bank does NOT want to hold excess reserves.

2. Use **Scenario 25-2.** What is the maximum expansion in the money supply possible?
   A. $1,000
   B. $1,800
   C. $4,000
   D. $5,000
   E. $10,000
3. Use **Scenario 25-2.** Which of the following is an accurate description of the bank's balance sheet immediately after the deposit?
   A. Reserves increase by $1,000, and demand deposits increase by $1,000.
   B. Reserves increase by $1,000, and demand deposits decrease by $1,000.
   C. Reserves decrease by $1,000, and demand deposits decrease by $1,000.
   D. Reserves decrease by $200, and demand deposits increase by $1,000.
   E. Reserves increase by $800, and demand deposits increase by $1,000.
4. Use **Scenario 25-2.** How much can the bank loan based on the $1,000 deposit?
   A. $1,000
   B. $200
   C. $800
   D. $0
   E. $900
5. Use **Scenario 25-2.** By how much did the monetary base change?
   A. $0
   B. $800
   C. $1,000
   D. $4,000
   E. $5,000
6. For a bank, when a person deposits money into the bank, this:
   A. creates only an asset for the bank.
   B. creates only a liability for the bank.
   C. creates a liability and an asset for the bank.
   D. is most likely to result in a decrease in the money supply.
   E. creates a liability for the depositor.

   Figure 29-5: Market for Loanable Funds I



7. Use the "**Market for Loanable Funds I" Figure 29-5**. According to the accompanying figure, the equilibrium interest rate is:
   A. 2%.
   B. 4%.
   C. 6%.
   D. 8%.
   E. 5%.
8. Crowding out negatively affects the economy by:
   A. decreasing government borrowing.
   B. decreasing consumption.
   C. increasing private borrowing.
   D. reducing investment spending on physical capital.
   E. decreasing government deficits.
9. Which of the following is considered investment spending in macroeconomics?
   A. GM builds a new plant to manufacture automobiles.
   B. Ryan Jones buys some GM stock.
   C. Ryan Jones buys some GM bonds.
   D. Ryan Jones buys some GM stock and bonds.
   E. Ryan Jones buys a GM automobile.
10. Economists view investment spending as which of the following?
    A. stocks
    B. bonds
    C. Spending on physical capital.
    D. mutual fund investing
    E. Spending on human capital.
11. Which of the following is considered an act of investing in a physical asset?
    A. Purchasing shares of stock in IBM.
    B. Selling shares of stock in IBM.
    C. Buying a bond issued by IBM.

D. Buying a new factory that produces IBM handheld devices.
E. Buying a new IBM computer to take to college.

Scenario 22-2: Open Economy *S = I*
In an open economy suppose that GDP is $12 trillion. Consumption is $8 trillion and government spending is $2 trillion. Taxes are $0.5 trillion. Exports are $1 trillion and imports are $3 trillion.

12. Use **Scenario 22-2.** How much is private saving?
A. $4 trillion
B. $2.5 trillion
C. $3.5 trillion
D. $1.5 trillion
E. $3 trillion

13. Use **Scenario 22-2.** What is the government budget balance?
A. a surplus of $1.5 trillion
B. a deficit of $1.5 trillion
C. a deficit of $0.5 trillion
D. a surplus of $3.5 trillion
E. a deficit of $2 trillion

14. Use **Scenario 22-2.** How much is national saving?
A. $4 trillion
B. $3.5 trillion
C. $2 trillion
D. $5.5 trillion
E. $3 trillion

15. Use **Scenario 22-2.** How much is the net capital inflow?
A. $1 trillion
B. $2 trillion
C. $3 trillion
D. $4 trillion
E. $2.5 trillion

16. Use **Scenario 22-2.** How much is investment spending?
A. $2 trillion
B. $3 trillion
C. $3.5 trillion
D. $4 trillion
E. $2.5 trillion

17. Today the dollar in your pocket is described as:
A. commodity money.
B. near-money.
C. fiat money.
D. commodity-backed money.
E. barter money.

18. Bank reserves are:
A. the fraction of deposits kept in gold with the Federal Reserve.
B. the deposits lent to finance illiquid investments.
C. the fraction of deposits kept in the form of very liquid assets.
D. gold kept in the bank's vault.
E. the mortgages banks make to home buyers. :

19. The reserve ratio is the:
    A. bank's holdings of gold.
    B. government's holdings of gold at Fort Knox.
    C. fraction of deposits the banks hold in their vaults.
    D. ratio of gold to the paper money in the economy.
    E. fraction of deposits that are lent to borrowers.

Assets		**Liabilities**
Loans	$900,000	Deposits $1,000,000
Reserves	$100,000	
Scenario 25-3: Assets and Liabilities of the Banking System		

20. Use **Scenario 25-3.** If the reserve ratio is 5% and the banking system does NOT want to hold excess reserves, then ________ will be added to the money supply.
    A. $666,667
    B. $111,111
    C. $250,000
    D. $1,000,000
    E. $500,000
21. Suppose the reserve ratio is 25%, then the money multiplier is
    A. 5.
    B. 0.25.
    C. 4.
    D. 1/25.
    E. 10.
22. The monetary base is:
    A. the sum of reserves held by the banks and currency in circulation.
    B. the sum of checkable bank deposits and bank reserves.
    C. the sum of savings deposits and currency in circulation.
    D. the sum of checkable bank deposits and currency in circulation.
    E. the sum of outstanding loans and currency in circulation.
23. If the required reserve ratio rises:
    A. the money multiplier will also rise.
    B. the banking system will experience a contraction in its level of bank deposits.
    C. the amount of reserves in the banking system will decrease.
    D. excess reserves will also rise.
    E. the money supply will expand.
24. In the U.S., the institution that is charged with determining the size of the monetary base and with regulating the banking system is the:
    A. Treasury Department.
    B. Commerce Department.
    C. U.S. Senate Banking Committee.
    D. Federal Reserve.
    E. President’s Council of Economic Advisors.
25. Which of the following is a tool used by the Fed in the conduct of monetary policy?
    A. Changes in the prime rate.
    B. Issuing new government bonds and retiring old ones.
    C. Buying and selling corporate bonds.

D. Buying and selling federal government bonds.
E. Raising and lowering import tariffs.

26. The tools of conducting monetary policy include:
A. changes in the reserve requirement.
B. changes in the prime rate.
C. open market purchases of corporate stock.
D. changing tax rates.
E. regulating the New York Stock Exchange.

27. If the Fed increases the discount rate:
A. the money supply is likely to decrease.
B. the money supply is likely to increase.
C. the money supply is not likely to change.
D. the federal funds rate must decrease.
E. nominal interest rates will fall.

28. Federal funds are:
A. government tax receipts.
B. loans between banks.
C. government expenditures.
D. bank deposits at the Federal Reserve.
E. government transfer payments.

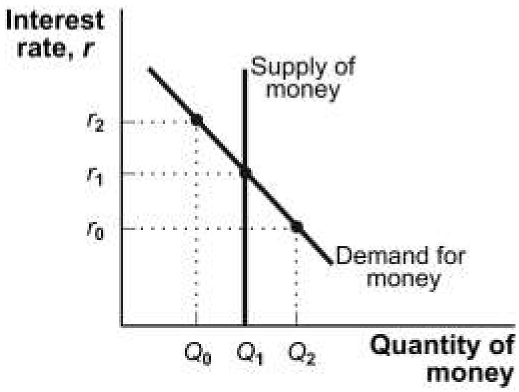
29. If the Fed conducts an open-market purchase:
A. bank reserves decrease and the money supply decreases.
B. bank reserves increase and the money supply increases.
C. bank reserves decrease and the money supply increases.
D. bank reserves increase and the money supply decreases.
E. bank reserves increase and the money supply does not change.

30. If the Fed conducts a $10 million open-market sale and the reserve requirement is 20%, the monetary base will:
A. increase by $10 million.
B. increase by $8 million.
C. decrease by $10 million.
D. decrease by $50 million.
E. increase by $50 million.

31. Suppose that the reserve ratio is 10% when the Fed buys $100,000 of U.S. Treasury bills from the banking system. If the banking system does NOT want to hold any excess reserves, ________ will be added to the money supply.
A. $666,667
B. $111,111
C. $250,000
D. $1,000,000
E. $900,000

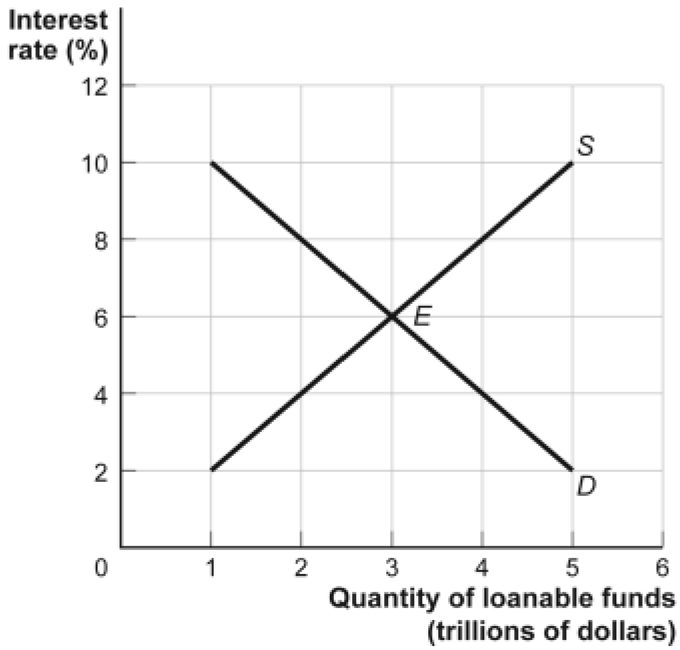
32. When banks borrow and lend reserves from each other, they are participating in the ______ market.
A. subprime mortgage
B. long-term capital
C. money
D. federal funds
E. foreign exchange

Figure 28-1: Money Market II



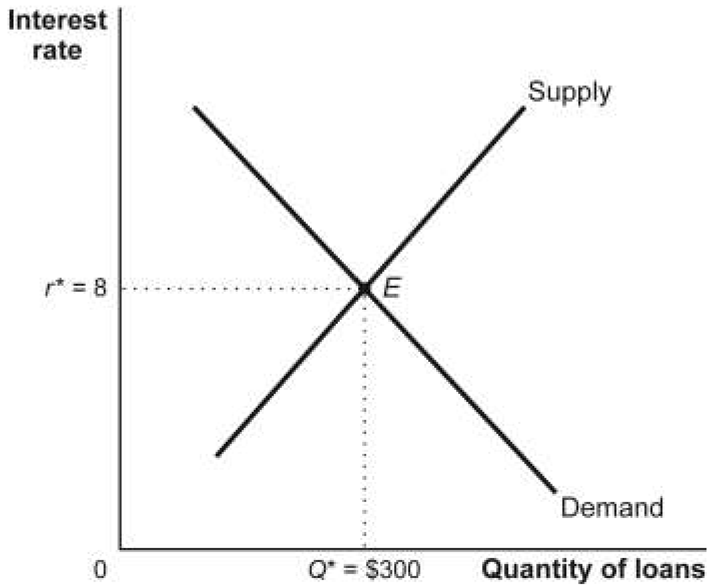
33. Use the “**Money Market II” Figure 28-1.** Equilibrium in this money market will occur at interest rate _______ and quantity of money _______.
    A. r_2; Q_0
    B. r_0; Q_2
    C. r_2; Q_2
    D. r_1; Q_2
    E. r_1; Q_1
34. Use the “**Money Market II” Figure 28-1.** If the interest rate is above the equilibrium rate, there will be an _______ money and the interest rate will _______.
    A. excess demand for; rise
    B. excess supply of; fall
    C. excess demand for; fall
    D. excess supply of; rise
    E. excess supply of; remain the same
35. Use the “**Money Market II” Figure 28-1.** If the rate of interest is below the equilibrium rate, there will be an _______ money and the interest rate will _______.
    A. excess demand for; rise
    B. excess supply of; fall
    C. excess demand for; fall
    D. excess supply of; rise
    E. excess supply of; remain the same
36. A business will want to borrow to undertake an investment project when the rate of return on that project is:
    A. less than the interest rate.
    B. greater than the interest rate.
    C. greater than the exchange rate.
    D. equal to the inflation rate.
    E. less than the inflation rate.
37. The demand for loanable funds is _____ sloping because _____ respond to lower interest rates by _____ their quantity demanded of loanable funds.
    A. downward; investors; increasing
    B. downward; savers; increasing
    C. upward; investors; decreasing
    D. upward; savers; decreasing
    E. downward; investors; decreasing

Figure 29-3: Loanable Funds Market



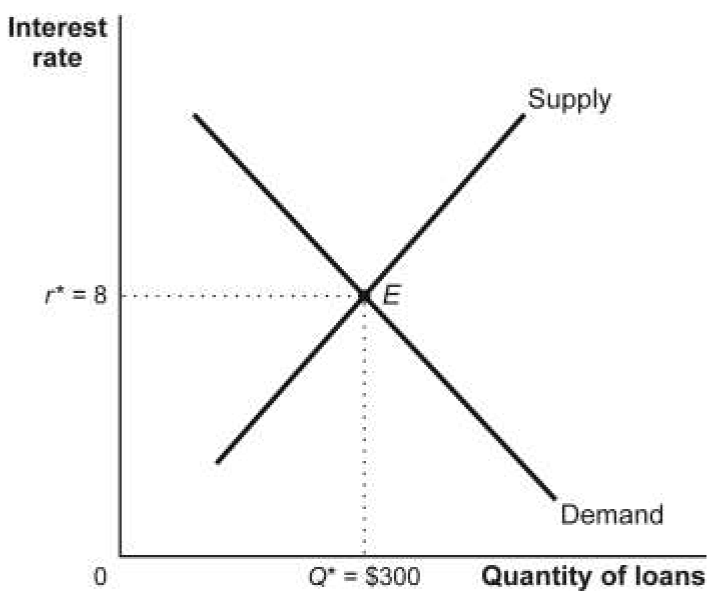
38. Use the "**Loanable Funds Market" Figure 29-3.** If the interest rate is 8%, businesses will want to borrow approximately:
    A. $3 trillion.
    B. $2 trillion.
    C. $4 trillion.
    D. $1 trillion.
    E. $5 trillion
39. Use the "**Loanable Funds Market" Figure 29-3.** If the interest rate is 8%, people will want to save approximately:
    A. $3 trillion.
    B. $2 trillion.
    C. $4 trillion.
    D. $1 trillion.
    E. $5 trillion.
40. Use the "**Loanable Funds Market" Figure 29-3.** The equilibrium interest rate and total quantity of lending are:
    A. 8% and $2 trillion.
    B. 2% and $5 trillion.
    C. 10% and $1 trillion.
    D. 6% and $3 trillion.
    E. 4% and $5 trillion.

Figure 29-8: Market for Loanable Funds II



41. Use the "**Market for Loanable Funds II" Figure 29-8.** An increase in government borrowing will shift the demand for loanable funds to the:
    A. left and increase the interest rate.
    B. left and decrease the interest rate.
    C. right and increase the interest rate.
    D. right and decrease the interest rate.
    E. right and have no impact on the interest rate.

Figure 29-9: Market for Loanable Funds II



42. Use the "**Market for Loanable Funds II**" Figure 29-9. An increase in savings by the private sector will shift the supply of loanable funds to the:
    A. left and increase the interest rate.
    B. right and decrease the interest rate.

C. right and increase the interest rate.
D. left and decrease the interest rate.
E. right and have no impact on the interest rate.

43. The loanable funds model focuses on the:
A. demand for money.
B. supply of funds from lenders.
C. supply of funds from borrowers and the demand for funds by lenders
D. supply of funds from lenders and the demand for funds from borrowers.
E. supply of money.