University of Benha
Faculty of Commerce
English Section
Dept. of Economics

Economics of Money & Banking
Course Code:
Economics E216
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Tutorial 4

1. The economist Irving Fisher, after whom the Fisher effect is named, explained why interest rates ________ as the expected rate of inflation ________.

   a. rise; increases

   b. rise; stabilizes

   c. rise; decreases

   d. fall; increases

   e. fall; stabilizes

2. An increase in the expected rate of inflation causes the demand for bonds to ________ and the supply for bonds to ________.

   a. fall; fall

   b. fall; rise

   c. rise; fall

   d. rise; rise

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3. A decrease in the expected rate of inflation causes the demand for bonds to ________ and the supply of bonds to ________.

    a. fall; fall

    b. fall; rise

    c. rise; fall

    d. rise; rise

4. When the economy slips into a recession, normally the demand for bonds ________, the supply of bonds ________, and the interest rate ________.

    a. increases; increases; rises

    b. decreases; decreases; falls

    c. increases; decreases; falls

    d. decreases; increases; rises

5. When the economy enters into a boom, normally the demand for bonds ________,

the supply of bonds ________, and the interest rate ________.

    a. increases; increases; rises

    b. decreases; decreases; falls

    c. increases; decreases; rises

    d. decreases; increases; rises

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6. In Keynes's liquidity preference framework, individuals are assumed to hold their wealth in two forms:
   a. real assets and financial assets.
   b. stocks and bonds.
   c. money and bonds.
   d. money and gold.
7. In his liquidity preference framework, Keynes assumed that money has a zero rate of return; thus, when interest rates ________ the expected return on money falls relative to the expected return on bonds, causing the demand for money to ________.
   a. rise; fall
   b. rise; rise
   c. fall; fall
   d. fall; rise
8. A lower level of income causes the demand for money to ________ and the interest rate to ________.
   a. decrease; decrease
   b. decrease; increase
   c. increase; decrease
   d. increase; increase
9. A rise in the price level causes the demand for money to ________ and the demand curve to shift to the ________.
   a. decrease; right

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b. decrease; left

c. increase; right

d. increase; left

10. A decline in the price level causes the demand for money to ________ and the demand curve to shift to the ________.

   a. decrease; right

   b. decrease; left

   c. increase; right

   d. increase; left

11. A decline in the expected inflation rate causes the demand for money to ________ and the demand curve to shift to the ________.

   a. decrease; right

   b. decrease; left

   c. increase; right

   d. increase; left

12. Holding everything else constant, an increase in the money supply causes

   a. interest rates to decline initially.

   b. interest rates to increase initially.

   c. bond prices to decline initially.

   d. both A and C of the above.

   e. both B and C of the above.

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13. Holding everything else constant, a decrease in the money supply causes

    a. interest rates to decline initially.
    b. interest rates to increase initially.
    c. bond prices to increase initially.
    d. both A and C of the above.
    e. both B and C of the above.

14. If the liquidity effect is smaller than the other effects, and the adjustment of expected inflation is slow, then the

    a. interest rate will fall.
    b. interest rate will rise.
    c. interest rate will initially fall but eventually climb above the initial level in response to an increase in money growth.
    d. interest rate will initially rise but eventually fall below the initial level in response to an increase in money growth.

15. When the growth rate of the money supply increases, interest rates end up being permanently lower if

    a. the liquidity effect is larger than the other effects.
    b. there is fast adjustment of expected inflation.
    c. there is slow adjustment of expected inflation.
    d. the expected inflation effect is larger than the liquidity effect.

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16. When the growth rate of the money supply decreases, interest rates end up being permanently lower if

    a. the liquidity effect is larger than the other effects.

    b. there is fast adjustment of expected inflation.

    c. there is slow adjustment of expected inflation.

    d. the expected inflation effect is larger than the liquidity effect.

17. When the growth rate of the money supply is decreased, interest rates will rise immediately if the liquidity effect is ________ than the other effects and if there is ________ adjustment of expected inflation.

    a. larger; rapid

    b. larger; slow

    c. smaller; slow

    d. smaller; rapid

18. When the growth rate of the money supply is increased, interest rates will rise immediately if the liquidity effect is ________ than the other effects and if there is ________ adjustment of expected inflation.

    a. larger; rapid

    b. larger; slow

    c. smaller; slow

    d. smaller; rapid

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19. If the Fed wants to permanently lower interest rates, then it should lower the rate of money growth if

    a. there is fast adjustment of expected inflation.

    b. there is slow adjustment of expected inflation.

    c. the liquidity effect is smaller than the expected inflation effect.

    d. the liquidity effect is larger than the other effects.

20. Milton Friedman contends that it is entirely possible that when the money supply rises, interest rates may ________ if the ________ effect is more than offset by changes in income, the price level, and expected inflation.

    a. fall; liquidity

    b. fall; risk

    c. rise; liquidity

    d. rise; risk

21. _______ is the total resources owned by an individual, including all assets.

    a. Expected return

    b. Wealth

    c. Liquidity

    d. Risk

22. When the quantity of bonds demanded equals the quantity of bonds supplied, there is

    a. excess supply.

    b. excess demand.

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c. a market equilibrium.

d. an asset market approach.

23. Determining asset prices using stocks of assets rather than flow is called

a. asset transformation.

b. expected return.

c. asset market approach.

d. market equilibrium.

24. As expected inflation increases for the coming year, we expected the price of gold to ________ due to a rightward shift the in ________ curve.

a. increase; demand

b. increase; supply

c. decrease; demand

d. decrease; supply

25. As expected inflation falls for the coming year, we expected the price of gold to ________ due to a leftward shift the in ________ curve.

a. increase; demand

b. increase; supply

c. decrease; demand

d. decrease; supply

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26. When interest rates decrease, the demand curve for bonds shifts to the left.
    a. True
    b. False

27. When an economy grows out of a recession, normally the demand for bonds increases and the supply of bonds increases.
    a. True
    b. False

28. When the government's budget deficit decreases, the demand curve for bonds shifts to the right.
    a. True
    b. False

29. Investors make their choices of which assets to hold by comparing the expected return, liquidity, and risk of alternative assets.
    a. True
    b. False

30. Interest rates are procyclical in that they tend to rise during business cycle expansions and fall during recessions.
    a. True
    b. False

31. When income and wealth are rising, the demand for bonds rises and the demand curve shifts to the right.
    a. True
    b. False

32. 8) An increase in the inflation rate will cause the demand curve for bonds to shift to the right.
    a. True
    b. False

33. The Fisher Effect predicts that an increase in expected inflation will lower the interest rate on bonds.
    a. True
    b. False

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34. Holding everything else constant, an increase in wealth lowers the quantity demanded of an asset.
    a. True
    b. False

35. An increase in an asset's expected return relative to that of an alternative asset, holding everything else unchanged, raises the quantity demanded of the asset.
    a. True
    b. False

36. During business cycle expansions when income and wealth are rising, the demand for bonds ________ and the demand curve shifts to the ________.

    a. falls; right

    b. falls; left

    c. rises; right

    d. rises; left