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

Economics of Money & Banking
Course Code:
Economics E216

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Tutorial 7

1. In a bank panic, the source of contagion is the
A) free-rider problem.
B) too-big-to-fail problem.
C) transactions cost problem.
D) asymmetric information problem.

2. A basic principle of finance is that the value of any investment is
A) the present value of all future net cash flows generated by the investment.
B) the undiscounted sum of all future net cash flows generated by the investment.
C) unrelated to the future net cash flows generated by the investment.
D) unrelated to the degree of risk associated with the future net cash flows generated by the investment.

3. loan-servicing agent will
A) package the loan for an investor.
B) hold the loan in their investment portfolio.
C) collect payments from the borrower.
D) do both A and C of the above.

4. The interest rate borrowers pay on their mortgages is determined by
A) current long-term market rates.
B) the term.
C) the number of discount points.
D) all of the above.

5. Bank panics in the nineteenth and early twentieth centuries convinced many that
(A) the Federal Reserve needed greater control over the banking system.
(B) the Federal Reserve needed greater authority to deal with problem banks.
(c) a central bank was needed to prevent future financial panics.
(D) both (A) and (B) of the above.

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6. The primary reason for the creation of the Federal Reserve System was
   (A) the desire to reduce or eliminate bank panics and the desire to have a lender of last resort.
   (B) the desire to stabilize short-term interest rates.
   (C) the desire to eliminate state-chartered banks.
   (D) the desire to create a means to finance World War I

7. The Federal Reserve System enjoys
   (A) instrument independence.
   (B) political dependence.
   (C) goal independence.
   (D) all of the above.
   (E) both (a) and (c) of the above.

8. The oldest central bank, having been founded in 1694, is the
   (A) Bank of England.
   (B) Deutsche Bundesbank.
   (C) Bank of Japan.
   (D) Federal Reserve System.

9. Of the major central banks of the world, the most independent is
   (A) the Federal Reserve System.
   (B) the European Central Bank.
   (C) the Bank of Canada.
   (D) the Bank of England.

The Fed uses three policy tools to manipulate the money supply: _____, which affect reserves and
the monetary base; changes in _____, which affect reserves and the monetary base by influencing
the quantity of discount loans; and changes in _____, which affect the money multiplier.
(A) open market operations; the discount rate; margin requirements
(B) open market operations; the discount rate; reserve requirements
(C) the discount rate; open market operations; margin requirements
(D) the discount rate; open market operations; reserve requirements

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10. The interest rate charged on overnight loans of reserves between banks is the
(A) prime rate.
(B) discount rate.
(c) federal funds rate.
(D) Treasury bill rate.

11. The federal funds rate is the
(A) interest rate on overnight loans of reserves between banks.
(B) interest rate on government debt.
(C) interest rate the government pays when borrowing from banks.
(D) all of the above.

12. The quantity of reserves demanded equals
(A) required reserves plus discount loans.
(B) excess reserves plus discount loans.
(c) required reserves plus excess reserves.
(D) total reserves minus excess reserves.

13. The quantity of reserves demanded rises when the
(A) discount rate rises.
(B) discount rate falls.
(c) federal funds rate rises.
D) federal funds rate falls.
(E) discount rate equals the federal funds rate.

14. The opportunity cost of holding excess reserves is
(A) the discount rate.
(B) the prime rate.
(C) the Treasury bill rate.
(D) the federal funds rate.
(E) the mortgage rate.

15. In the market for reserves, an open market purchase shifts the supply curve to the (A) left, lowering the federal funds interest rate. (B) right, lowering the federal funds interest rate. (c) right, raising the federal funds interest rate. (D) left, raising the federal funds interest rate.

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16. In the market for reserves, an open market purchase shifts the supply curve to the
 (A) left, lowering the federal funds interest rate.
 (B) right, lowering the federal funds interest rate.
 (c) right, raising the federal funds interest rate.
 (D) left, raising the federal funds interest rate.

17. In the market for reserves, an open market _____ shifts the supply curve to the right, _____ thefederal funds interest rate.
(A) sale; lowering
(B) sale; raising
(C) purchase; lowering
(D) purchase; raising

18. Open market purchases _____ reserves and the monetary base thereby _____ the _____.
(A) raise; lowering; money supply
(B) raise; raising; money supply
(c) lower; lowering; money multiplier
(D) raise; raising; money multiplier
(E) lower; raising; money multiplier

19. Open market purchases _____ reserves and the monetary base thereby _____ the money supply.
 (A) raise; lowering
 (B) raise; raising
 (c) lower; lowering
 (D) lower; raising

20. 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.

21. Both ________ and ________ are monetary liabilities of the Fed.
 A) government securities; discount loans
 B) currency in circulation; reserves
 C) government securities; reserves

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D) currency in circulation; discount loans

22. The monetary base consists of
    A) currency in circulation and Federal Reserve notes.
    B) currency in circulation and the U.S. Treasury′s monetary liabilities.
    C) currency in circulation and reserves.
    D) reserves and Federal Reserve Notes.

23. Total reserves minus bank deposits with the Fed equals
    A) vault cash.
    B) excess reserves.
    C) required reserves.
    D) currency in circulation.

24. 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 reserves and total reserves.

25. The percentage of deposits that banks must hold in reserve is the
    A) excess reserve ratio.
    B) required reserve ratio.
    C) total reserve ratio.
    D) currency ratio.

26. Suppose that from a new checkable deposit, First National Bank holds two million dollars invault cash, nine million dollars in excess reserves, and faces a required reserve ratio of tenpercent. Given this information, we can say First National Bank has ________ million dollars inrequired reserves.
    A) one
    B) two
    C) eight
    D) ten

27. Suppose that from a new checkable deposit, First National Bank holds two million dollars invault cash, one million dollars in required reserves, and faces a required

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reserve ratio of tenpercent. Given this information, we can say First National Bank has ________ million dollars inexcess reserves.
A) one
B) two
C) nine
D) ten

28. High-powered money minus currency in circulation equals
A) reserves.
B) the borrowed base.
C) the nonborrowed base.
D) discount loans.

29. When a bank sells a government bond to the Federal Reserve, reserves in the banking system________ and the monetary base ________, everything else held constant.
A) increase; increases
B) increase; decreases
C) decrease; increases
D) decrease; decreases

30. When an individual sells a $100 bond to the Fed, she may either deposit the check she receivesor cash it for currency. In both cases
A) reserves increase.
B) high-powered money increases.
C) reserves decrease.
D) high-powered money decreases.

31. When the Federal Reserve calls in a discount loan from a bank, the monetary base ________ andreserves ________.
A) remains unchanged; decrease
B) remains unchanged; increase
C) decreases; decrease
D) decreases; remains unchanged

32. f reserves in the banking system increase by $100, then checkable deposits will increase by $500in the simple model of deposit creation when the required reserve ratio is
A) 0.01.

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B) 0.10.
C) 0.05.
D) 0.20

33. 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

34. 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.

35. In the simple deposit expansion model, if the banking system has excess reserves of $75, and therequired reserve ratio is 20%, the potential expansion of checkable deposits is
A) $75. B) $750. C) $37.50. D) $375.

36. If reserves in the banking system increase by $100, then checkable deposits will increase by $100in the simple model of deposit creation when the required reserve ratio is
A) 0.01. B) 0.10. C) 0.20. D) 1.00.

37. bank has excess reserves of $6,000 and demand deposit liabilities of $100,000 when therequired reserve ratio is 20 percent. If the reserve ratio is raised to 25 percent, the bank′s excessreserves will be
A) -$5,000. B) -$1,000. C) $1,000. D) $5,000.

38. The formula linking the money supply to the monetary base isA) M = m/MB.B) M = m × MB.C) m = M × MB.D) MB = M × m.E) M = m + MB.

39. There are two types of open market operations: _____ open market operations are intended to change the level of reserves and the monetary base, and _____ open market operations are intended to offset movements in other factors that affect the monetary base.
A) defensive; dynamic B) defensive; static

C) dynamic; defensive D) dynamic; static