Faculty of Commerce, Benha University

Economics of Money & Banking

Course Code:

Economics E216

Dr. Walaa Wageh Diab

E-mail: **Walaa.dyab@fcom.bu.edu.eg**

Tutorial 3

1) Factors that can cause the supply curve for bonds to shift to the right include

   A. an expansion in overall economic activity.
   B. a decrease in expected inflation.
   C. a decrease in government deficits.
   D. all of the above.

2) Factors that can cause the supply curve for bonds to shift to the left include
   A. expansion in overall economic activity.
   B. a decrease in expected inflation.
   C. an increase in government deficits.
   D. only A and C of the above.

3) The more liquid an asset is relative to alternative assets, holding everything else unchanged, the more desirable it is, and the greater the quantity demanded.

   A) True B) False

4) 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; increase

5) 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

6) 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

7) 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

8) 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

9) 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.

10) 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

11) 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

12) A rise 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

13) 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

14) 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

15) 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.

16) 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.

17) 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.

18) 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.

19) 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.

20) 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