Faculty of Commerce, Benha University

Economics of Money & Banking

Level 2

Course Code:

Economics E216

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Tutorial 8

1. The most common definition that central bankers use for price stability is
   A) low and stable deflation.
   B) an inflation rate of zero percent.
   C) high and stable inflation.
   D) low and stable inflation

2. Individuals that lend funds to a bank by opening a checking account are called
   A) policyholders. B) partners. C) depositors. D) debt holders.

3. The three players in the money supply process include
   A) banks, depositors, and the U.S. Treasury.
   B) banks, depositors, and borrowers.
   C) banks, depositors, and the central bank.
   D) banks, borrowers, and the central bank

4. The monetary liabilities of the Federal Reserve include
   A) securities and loans to financial institutions.
   B) currency in circulation and reserves.
   C) securities and reserves.
   D) currency in circulation and loans to financial institutions.

5. Both ________ and ________ are monetary liabilities of the Fed.
   A) securities; loans to financial institutions
   B) currency in circulation; reserves
   C) securities; reserves
   D) currency in circulation; loans to financial institutions

6. 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.

7. Total reserves are the sum of ________ and ________.
   A) excess reserves; borrowed reserves
   B) required reserves; currency in circulation
   C) vault cash; excess reserves
   D) excess reserves; required reserves

8. 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.

9. Suppose that from a new checkable deposit, First National Bank holds two million dollars in vault cash, eight million dollars on deposit with the Federal Reserve, and nine million dollars in excess reserves. Given this information, we can say First National Bank has ________ million dollars in required reserves.
   A) one
   B) two
   C) eight
   D) ten

10. Suppose that from a new checkable deposit, First National Bank holds two million dollars in vault cash, eight million dollars on deposit with the Federal Reserve, and nine million dollars in excess reserves. Given this information, we can say First National Bank faces a required reserve ratio of ________ percent.
    A) ten B) twenty
    C) eighty D) ninety

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

12. The monetary base minus reserves equals
    A) currency in circulation.
    B) the borrowed base.
    C) the nonborrowed base.
    D) discount loans.

13. Purchases and sales of government securities by the Federal Reserve are called
    A) discount loans.
    B) federal fund transfers.
    C) open market operations.
    D) swap transactions.

14. If reserves in the banking system increase by $100, then checkable deposits will increase by $1,000 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.

15. If the required reserve ratio is 15 percent, the simple deposit multiplier is
    A) 15.0. B) 1.5. C) 6.67. D) 3.33.

16. The monetary base declines when ________.
    A) the Bank extends advances to banks
    B) deposits at the Bank decrease
    C) float increases
    D) the Bank sells securities

17. 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.

18. 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.