Question #1 of 41

Question ID: 1573013

Assume the U.S. economy is undergoing a recession. In its efforts to stimulate the economy by trying to influence short-term interest rates the Fed is *most likely* to take which two actions?

A) Buy Treasury securities and decrease bank reserve requirements.

B) Sell Treasury securities and decrease bank reserve requirements.

C) Sell Treasury securities and increase bank reserve requirements.

Question #2 of 41

Question ID: 1573016

Which of the following policy tools is the *least likely* to be available to the U.S. Federal Reserve Board?

A) Setting the discount rate at which banks can borrow from the Federal Reserve.

B) Requiring the banking system to tighten or loosen its credit policies.

C) Buying and selling Treasury securities in the open market.

Question #3 of 41

Question ID: 1573012

Which of the following statements regarding U.S. Federal Reserve open market operations is *least accurate*?

A) If the Fed wants to stimulate the economy, it will sell Treasury securities to banks.

B) When the Fed buys Treasury securities, short-term interest rates will generally decrease.

C) When the Fed sells Treasury securities, excess reserves decrease.

Question #4 of 41

Question ID: 1573034

A central bank follows an inflation targeting monetary policy. If the permissible band is plus-or-minus 2% around the target inflation rate, the central bank is *most likely* to choose a target inflation rate of:

A) 0%.

B) 1%.

C) 3%.

Question #5 of 41

Question ID: 1573007

A country is experiencing a core inflation rate of 7% during a recessionary period of real GDP growth. If the central bank has a single mandate to achieve price stability and uses inflation targeting with an acceptable range of zero to 4%, its monetary policy response is *most likely* to decrease:

A) GDP growth in the short run.

B) short-term interest rates.

C) the foreign exchange value of the country's currency.

Question #6 of 41

Question ID: 1573026

Silvano Jimenez, an analyst at Banco del Rey, is reviewing recent actions taken by the U.S. Federal Reserve (the Fed) in setting monetary policy. Recently, the Fed decided to increase the money supply, which has resulted in a decrease in real interest rates. At a staff meeting, Jimenez brings this matter to the attention of his colleagues and makes the following statements:

Statement 1: Although the money supply increase has led to a decrease in real interest rates, we should begin to see U.S. investors decrease their investments abroad and the U.S. dollar will appreciate in the foreign exchange market.

Statement 2: The Fed's increase in the money supply will increase the amount of imports into the U.S.

Are Statement 1 and Statement 2 as made by Jimenez CORRECT?

<u>Statement 1</u> <u>Statement 2</u>

A) Correct Incorrect

B) Incorrect Correct

C) Incorrect Incorrect

Question #7 of 41

Question ID: 1573031

Central banks that are able to define how inflation is computed and determine its desired level are *best described* as having:

A) operational independence.

B) target independence.

C) transparency.

Question #8 of 41

Question ID: 1573025

If a country's economy is growing at an unsustainably rapid rate and the central bank decreases its target overnight interest rate, the country's:

A) expected rate of inflation is likely to decline.

B) inflation rate is likely to increase.

C) long-term rate of economic growth will increase.

Question #9 of 41

Question ID: 1573009

Central banks are *most likely* to pursue a target inflation rate:

A) between 0% and 2%.

B) equal to 0%.

C) between 2% and 3%.

Question #10 of 41

Question ID: 1573010

Which of the following is *least likely* a function or objective of a central bank?

A) Issuing currency.

B) Keeping inflation within an acceptable range.

C) Lending money to government agencies.

Question #11 of 41

Question ID: 1573017

Central banks pursuing expansionary policies may:

A) decrease the policy rate and make open market purchases of securities.

B) decrease the policy rate and make open market sales of securities.

C) increase the policy rate and make open market purchases of securities.

Question #12 of 41

Question ID: 1573045

Which of the following policy combinations would *most likely* lead to private sector growth and a decreasing government share of GDP?

A) Contractionary fiscal policy and expansionary monetary policy.

B) Contractionary fiscal policy and contractionary monetary policy.

C) Expansionary fiscal policy and contractionary monetary policy.

Question #13 of 41

Question ID: 1573043

Which one of the following Federal Reserve monetary policies, when pursued in line with the U.S. government's fiscal policies, would help increase aggregate demand during a period of high unemployment?

A) An increase in the reserve requirements for financial institutions.

B) A decrease in the discount rate.

C) The sale of bonds by the Fed.

Question #14 of 41

Question ID: 1573037

To determine whether monetary policy is expansionary or contractionary, an analyst should compare the central bank's policy rate to the:

A) neutral interest rate.

B) target inflation rate.

C) trend rate of real growth.

Question #15 of 41

Question ID: 1573014

When the Federal Reserve sells government securities on the open market, bank reserves are:

A) decreased, which reduces the amount of money banks are able to lend, causing a decrease in the federal funds rate.

B) decreased, which reduces the amount of money banks are able to lend, causing an increase in the federal funds rate.

C) increased, which increases the amount of money banks are able to lend, causing a decrease in the federal funds rate.

Question #16 of 41

Question ID: 1573041

Which of the following conditions is difficult for monetary policy to address because a central bank cannot reduce its nominal policy rate much below zero?

A) Deflation.

B) Inflation.

C) Stagflation.

Question #17 of 41

Question ID: 1573029

A central bank has operational independence if it can independently determine:

A) the horizon over which to achieve its inflation target.

B) the policy rate.

C) how inflation is calculated.

Question #18 of 41

Question ID: 1573015

If the Federal Reserve wishes to lower market interest rates without changing the discount rate, it can:

A) buy Treasury securities.

B) increase bank reserve requirements.

C) raise the yield on Treasury securities.

Question #19 of 41

Question ID: 1573032

A central bank is said to have credibility if:

A) economic actors base decisions on the central bank's stated inflation targets.

B) it issues inflation reports monthly.

C) it determines both the policy rate and the method for computing the inflation rate.

Question #20 of 41

Question ID: 1573011

If a monetary policy is focused on combating inflation, which open market actions by the Federal Reserve will *most* effectively accomplish this?

A) Sell Treasury securities, causing aggregate demand to decrease.

B) Sell Treasury securities, causing aggregate demand to increase.

C) Purchase Treasury securities, causing aggregate demand to decrease.

Question #21 of 41

Question ID: 1573039

The *most likely* reason for deflation to persist despite expansionary monetary policy is:

A) a liquidity trap.

B) bond market vigilantes.

C) inelastic demand for money.

Question #22 of 41

Question ID: 1573027

Which of the following is the *most likely* result of a central bank's shift to an expansionary monetary policy?

A) Domestic currency appreciates.

B) Exports increase.

C) Interest rates increase.

Question #23 of 41

Question ID: 1573036

An analyst has determined the projected trend rate of real GDP growth is 2.5% and the central bank's inflation target is 2.5%. If the central bank policy rate is 5.0%, monetary policy is *most likely*:

A) neutral.

B) expansionary.

C) contractionary.

Question #24 of 41

Question ID: 1573038

An economy's long-term trend rate of real GDP growth is 3% and the central bank's target inflation rate is 2%. If the policy rate is 6%, monetary policy is:

A) contractionary.

B) expansionary.

C) neutral.

Question #25 of 41

Question ID: 1573024

The velocity of transactions in an economy has been increasing rapidly for the past seven years. Over the same time period, the economy has experienced minimal growth in real output. According to the equation of exchange, inflation over the last seven years has:

A) been minimal, consistent with the slow growth in real output.

B) increased at a rate similar to the growth rate in the money supply.

C) increased more than the growth in the money supply.

Question #26 of 41

Question ID: 1573030

What are the three essential qualities an effective central bank should possess?

A) Transparency, independence, and consistency.

B) Independence, credibility, and transparency.

C) Credibility, relevance, and reliability.

Question #27 of 41

Question ID: 1573023

Contractionary monetary policy is *least likely* to decrease consumption spending by decreasing:

A) expectations for economic growth.

B) securities prices.

C) the foreign exchange value of the currency.

Question #28 of 41

Question ID: 1573040

Which of the following statements regarding the monetary policy transmission mechanism is *most* accurate?

A) Central banks can control short-term interest rates directly, but long-term interest rates are beyond their control.

B) Central banks can control long-term interest rates directly because decisions by consumers and businesses are based on these rates.

C) Central banks can control short-term interest rates by increasing the money supply to increase interest rates or by decreasing the money supply to decrease interest rates.

Question #29 of 41

Question ID: 1573044

The government is reducing its spending to balance the budget, while the central bank is lowering its official policy rate. What will *most likely* be the combined effect on the economy?

A) The private sector as a percentage of GDP will increase.

B) The public and private sectors as a percentage of GDP will neither decrease nor increase.

C) The public sector as a percentage of GDP will increase.

Question #30 of 41

Question ID: 1573019

A central bank that wants to increase short-term interest rates is *most likely* to:

A) issue long-term bonds.

B) decrease bank reserve requirements.

C) sell government securities.

Question #31 of 41

Question ID: 1573035

Which of the following is currently the most-used target for central banks?

A) Interest rate targeting.

B) Money supply targeting.

C) Inflation targeting.

Question #32 of 41

Question ID: 1573006

If a bank needs to borrow funds from the Federal Reserve to fund a temporary shortage in reserves, it would borrow funds at the:

A) discount rate.

B) prime rate.

C) federal funds rate.

Question #33 of 41

Question ID: 1573008

Which of the following is *least likely* to be a function of the central bank?

A) Collect tax payments.

B) Issue currency.

C) Regulate the banking system.

Question #34 of 41

Question ID: 1573022

The open market sale of Treasury securities by the Federal Reserve is *least likely* to result in:

A) increased exports of U.S. goods.

B) increased longer-term interest rates.

C) a decreased rate of inflation.

Question #35 of 41

Question ID: 1573028

Xanadu attempts to decrease its inflation rate by implementing contractionary monetary policy. Which of the following is *most likely* to be the long-run effect on Xanadu's trade balance as a result of the monetary policy change?

A) Worsen.

B) Remain the same.

C) Improve.

Question #36 of 41

Question ID: 1573033

If a central bank implements an exchange rate targeting policy successfully, the country's inflation rate is *most likely* to be:

A) less than that of the target currency.

B) the same as that of the target currency.

C) greater than that of the target currency.

Question #37 of 41

Question ID: 1573005

The primary objective of a central bank is typically to:

A) control inflation.

B) stabilize exchange rates.

C) achieve full employment.

Question #38 of 41

Question ID: 1573020

The Federal Reserve has decided to increase the federal funds rate (the interest rate that banks charge each other for overnight loans). To implement this policy, the Federal Reserve will *most likely*:

A) sell government securities in the open market.

B) increase currency exchange rates (cause domestic currency to appreciate).

C) set a lower price on Treasury bills and notes that it is auctioning.

Question #39 of 41

Question ID: 1573018

If a central bank's targeted inflation rate is above the current rate, the central bank is *most likely* to:

A) increase the overnight lending rate.

B) buy government securities.

C) increase the reserve requirement.

Question #40 of 41

Question ID: 1573021

If the U.S. Federal Reserve decides to decrease the money supply, which of the following is *most likely* to occur in the short run?

A) An increase in the real rate of interest.

B) A decrease in the unemployment rate.

C) An increase in the velocity of money similar to decrease in the money supply.

Question #41 of 41

Question ID: 1573042

Which of the following fiscal and monetary policy scenarios is *most likely* to increase the size of the public sector relative to the private sector?

A) Contractionary fiscal and monetary policy.

B) Expansionary fiscal policy and contractionary monetary policy.

C) Expansionary monetary policy and contractionary fiscal policy.