Name: ____________________________

ECON 4100: Monetary Economics **Final Exam**
William D. Lastrapes **Fall 2008**

ANSWER SHEET

Instructions: Most of the questions on this exam are multiple choice. For these questions, put the letter of your choice in the appropriate space on this answer sheet. For the few direct questions without a choice, put your brief answer in the space provided on this answer sheet. Turn in only this answer sheet; you may keep the exam itself.

1. **b**
2. **a**
3. **a**
4. **c**
5. **f**
6. **c**
7. **c**
8. **d**
9. **d**
10. **5%**
11. **True**
12. **b**
13. **b**
14. **d**
15. **d**
16. **a**
17. **4%**
18. **a**
19. **c**
20. **a**
21. **b**
22. **d**
23. **e**
24. **a**
25. **b**
26. **b**
27. **d**
28. **b**
29. **f**
30. **2%**

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1. According to the 'loanable funds' model developed in class, which of the following events is most likely to lead to an increase in the real interest rate and a decrease in the quantity of credit in the economy?
   a. An increase in the federal government's budget deficit
   b. A decrease in total output in the economy
   c. An increase in the expected rate of inflation
   d. None of the above

2. Which of the following is a valid prediction of the 'expectations hypothesis' of the term structure of interest rates?
   a. If the yield curve slopes upward, the market expects short-term rates to rise in the future.
   b. If the yield curve slopes upward, the market expects long-term rates to rise in the future.
   c. If the yield curve slopes upward, the market expects short-term rates to fall in the future.
   d. If the yield curve slopes upward, the market expects long-term rates to fall in the future.

3. The current monetary base in the US is the sum of
   a. currency held by the non-bank public and bank reserves.
   b. currency held by the non-bank public and checkable deposits at banks.
   c. currency held by banks and bank reserves.
   d. bank reserves and checkable deposits at commercial banks.
   e. none of the above.

4. A key assumption of the 'multiplier' model of the money supply is that, when the FOMC increases the monetary base for policy purposes, the multiplier
   a. increases.
   b. decreases.
   c. remains unchanged.
   d. will increase or decrease.

5. Assume that banks' desired reserve ratio is 25% and the public's currency to deposit ratio is 50%. If the Fed makes a discount (primary credit) loan of $1,500,000 and at the same time sells $1 million of government securities on the open market, what happens to the money stock? The money stock will
   a. fall by $3 million.
   b. fall by $2 million.
   c. fall by $1 million.
   d. rise by $3 million.
   e. rise by $2 million.
   f. rise by $1 million.

6. During the Great Depression, commercial bank deposits (and thus the money supply) fell dramatically. In terms of the money multiplier model, the primary cause of this monetary contraction was
   a. a reduction in bank reserves;
   b. a reduction in currency held by the public;
   c. an increase in the desired reserve ratio and an increase in the currency to deposit ratio;
   d. an increase in reserve requirements.