NAME ______________________ CLASS ______________ DATE ______________

Section 3: Quiz

Monetary Policy Tools

CHAPTER 16

A. Key Terms

Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

____ 1. holdings greater than the legally required amount

____ 2. a formula that tells how much money will be created by an initial cash deposit

____ 3. the interest rate the Federal Reserve charges on loans to financial institutions

____ 4. the buying and selling of government securities to change the supply of money

Column II

a. open market operations

b. excess reserves

c. money multiplier

d. discount rate

B. Main Ideas

Write the letter of the correct answer in the blank provided.

____ 5. What is the required reserve ratio?
- a. the deposits that commercial companies make in banks
- b. the amount of money a bank has to loan out
- c. the portion of a deposit that a bank must keep on hand
- d. the ratio of commercial to personal loans that a bank makes

____ 6. What is the estimated value of the actual money multiplier effect in the United States?
- a. between 1 and 2
- b. between 2 and 3
- c. between 5 and 6
- d. about 10

____ 7. Why does the Fed rarely change the reserve requirement?
- a. It is too complicated as a way to make minor adjustments.
- b. It is not an effective way to manipulate the money supply.
- c. It can be disruptive to the whole banking system.
- d. It might not have a significant effect on the money available.

____ 8. How does the Fed encourage banks to loan more money?
- a. by reducing the discount rate
- b. by increasing the interest rate allowed
- c. by borrowing from their own member banks
- d. by increasing the reserves required of banks

____ 9. How does a bond sale made by the Fed affect the money supply?
- a. The sale increases the money supply.
- b. The sale decreases the money supply.
- c. The sale increases the money supply but not in the proportion that the multiplier effect would suggest.
- d. It does not affect the money supply.

____ 10. What is the policy used most by the Fed to change the money supply?
- a. changes in the money creation policy
- b. changes in the discount rate
- c. changes in the reserve requirements
- d. open market operations