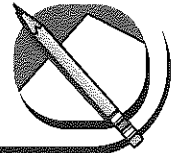


Section 3: Quiz

Monetary Policy Tools



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