NAME ______________________ CLASS ______________ DATE ______________

Section 4: Quiz

Monetary Policy and Macroeconomic Stabilization

CHAPTER 16

A. Key Terms

Briefly define or identify each of the following.

1. tight money policy ______________________________

2. easy money policy ______________________________

3. inside lag ______________________________

4. outside lag ______________________________

5. monetarism ______________________________

B. Main Ideas

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

____ 6. What does monetary policy do?
- **a.** It alters the supply of money.
- **b.** It changes the way that taxes are collected.
- **c.** It charters new banks.
- **d.** It mints new coins and prints bills.

____ 7. What effect do low interest rates have on business investment?
- **a.** They generally stop it completely.
- **b.** They slow it down.
- **c.** They encourage it.
- **d.** They do not have much effect on essential investment.

____ 8. What does fiscal policy include?
- **a.** changes in interest rates and loan policies
- **b.** changes in government spending and taxation
- **c.** changes in banking regulations and policies
- **d.** changes in monetary policy

____ 9. Why does monetary policy usually involve a streamlined inside lag?
- **a.** Congress and the president act quickly on monetary policy.
- **b.** Monetary policy is determined by independent leaders of industry.
- **c.** The Federal Open Market Committee can act almost immediately.
- **d.** Predicting economic trends is simple and reliable today.

____ 10. What is likely to be the best approach to a recession that is expected to turn into an expansion in a short time?
- **a.** Use monetary policy to lower interest.
- **b.** Use monetary policy to raise interest.
- **c.** Use fiscal policy to lower interest.
- **d.** Do nothing and let the economy fix itself.

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