The Money Multiplier

1) Models describing the determination of the money supply and the Fed's role in this process normally focus on ________ rather than ________, since Fed actions have a more predictable effect on the former.
   A) reserves; the monetary base
   B) reserves; high-powered money
   C) the monetary base; high-powered money
   D) the monetary base; reserves

2) The Fed can exert more precise control over ________ than it can over ________.
   A) high-powered money; reserves
   B) high-powered money; the monetary base
   C) the monetary base; high-powered money
   D) reserves; high-powered money

3) The ratio that relates the change in the money supply to a given change in the monetary base is called the
   A) money multiplier.
   B) required reserve ratio.
   C) deposit ratio.
   D) discount rate.

4) The formula linking the money supply to the monetary base is
   A) $M = \frac{m}{MB}$.
   B) $M = m \times MB$.
   C) $m = M \times MB$.
   D) $MB = M \times m$.
   E) $M = m + MB$.

5) The variable that reflects the effect on the money supply of changes in factors other than the monetary base is the
   A) currency-checkable deposits ratio.
   B) required reserve ratio.
   C) money multiplier.
   D) nonborrowed base.

6) The total amount of reserves in the banking system is equal to the ________ required reserves and excess reserves.
   A) sum of
   B) difference between
   C) product of
   D) ratio between

7) The total amount of required reserves in the banking system is equal to the ________ the required reserve ratio and checkable deposits.
   A) sum of
   B) difference between
   C) product of
   D) ratio between

8) Since the Federal Reserve sets the required reserve ratio to less than one, one dollar of reserves can support ________ of checkable deposits.
   A) exactly one dollar
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B) less than one dollar
C) more than one dollar
D) exactly twice the amount

9) The equation that shows the amount of the monetary base needed to support existing levels of checkable deposits, excess reserves, and currency is
   A) \( MB = (r \times D) + ER + C \).
   B) \( MB = (r + D) + ER + C \).
   C) \( \frac{r}{D} \) MB = ? + ER + C.
   D) \( MB = (r \times D) - ER - C \).

10) An increase in the monetary base that goes into ________ is not multiplied, while an increase that goes into ________ is multiplied.
    A) deposits; currency
    B) excess reserves; currency
    C) currency; excess reserves
    D) currency; deposits

11) An increase in the monetary base that goes into currency is ________, while an increase that goes into deposits is ________.
    A) multiplied; multiplied
    B) not multiplied; multiplied
    C) multiplied; not multiplied
    D) not multiplied; not multiplied

12) If the Fed injects reserves into the banking system and they are held as excess reserves, then the money supply
    A) increases by only the initial increase in reserves.
    B) increases by only one-half the initial increase in reserves.
    C) increases by a multiple of the initial increase in reserves.
    D) does not change.

13) If the Fed injects reserves into the banking system and they are held as excess reserves, then the monetary base
    ________ and the money supply ________.
    A) remains unchanged; remains unchanged
    B) remains unchanged; increases
    C) increases; increases
    D) increases; remains unchanged

14) The formula that links checkable deposits to the monetary base is
    A) \( m = \frac{1}{r + e + c} \).
    B) \( M = \frac{1}{r + e + c} \).
    C) \( M = \frac{1 + e}{r + e + c} \).
    D) \( D = \frac{1}{r + e + c} \).
    E)
15) The formula that links checkable deposits to the money supply is
   A) \( M = \frac{1 + c}{D} \).
   B) \( M = \frac{1}{1 + c} \times D \).
   C) \( D = \frac{1}{1 + c} \times M \).
   D) \( D = (1 + c) \times M \).

16) The formula for the M1 money multiplier is
   A) \( m = \frac{1 + c}{r + e + c} \).
   B) \( M = \frac{1}{r + e + c} \).
   C) \( M = \frac{1 + c}{r + e + c} \).
   D) \( m = \frac{1}{r + e + c} \times MB \).

17) If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $800 billion, and excess reserves total $0.8 billion, then the money supply is
   A) $8000.
   B) $1200.
   C) $1200.8.
   D) $8400.

18) If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $800 billion, and excess reserves total $0.8 billion, then the M1 money multiplier is
   A) 2.5.
   B) 1.67.
   C) 2.0.
   D) 0.601.

19) If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $800 billion, and excess reserves total $0.8 billion, then the currency ratio is
   A) 0.25.
   B) 0.50.
   C) 0.40.
   D) 0.05.

20) If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $800 billion, and excess reserves total $0.8 billion, then the excess reserves-checkable deposit ratio is
   A) 0.001.
   B) 0.10.
   C) 0.01.
   D) 0.05.

21) If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $800 billion, and excess reserves total $0.8 billion, then the monetary base is
   A) $480 billion.
   B) $480.8 billion.
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C) $80 billion.
D) $80.8 billion.

22) If the required reserve ratio is 15 percent, currency in circulation is $400 billion, checkable deposits are $800 billion, and excess reserves total $0.8 billion, then the M1 money multiplier is
   A) 2.5.
   B) 1.67.
   C) 2.3.
   D) 0.651.

23) If the required reserve ratio is 5 percent, currency in circulation is $400 billion, checkable deposits are $800 billion, and excess reserves total $0.8 billion, then the M1 money multiplier is
   A) 2.5.
   B) 2.72.
   C) 2.3.
   D) 0.551.

24) If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $1000 billion, and excess reserves total $1 billion, then the money supply is
   A) $10,000.
   B) $4000.
   C) $1400.
   D) $10,400.

25) If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $1000 billion, and excess reserves total $1 billion, then the M1 money multiplier is
   A) 2.5.
   B) 2.8.
   C) 2.0.
   D) 0.7.

26) If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $1000 billion, and excess reserves total $1 billion, then the currency ratio is
   A) 0.25.
   B) 0.50.
   C) 0.40.
   D) 0.05.

27) If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $1000 billion, and excess reserves total $1 billion, then the excess reserves-checkable deposit ratio is
   A) 0.01.
   B) 0.10.
   C) 0.001.
   D) 0.05.

28) If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $1000 billion, and excess reserves total $1 billion, then the monetary base is
   A) $400 billion.
   B) $401 billion.
   C) $500 billion.
   D) $501 billion.
29) If the required reserve ratio is 15 percent, currency in circulation is $400 billion, checkable deposits are $1000 billion, and excess reserves total $1 billion, then the M1 money multiplier is
   A) 2.54.
   B) 2.67.
   C) 2.35.
   D) 0.551.

30) If the required reserve ratio is one-third, currency in circulation is $300 billion, and checkable deposits are $900 billion, then the money supply is
   A) $2700.
   B) $3000.
   C) $1200.
   D) $1800.

31) If the required reserve ratio is one-third, currency in circulation is $300 billion, and checkable deposits are $900 billion, then the M1 money multiplier is
   A) 2.5.
   B) 2.8.
   C) 2.0.
   D) 0.67.

32) If the required reserve ratio is one-third, currency in circulation is $300 billion, and checkable deposits are $900 billion, then the currency ratio is
   A) 0.25.
   B) 0.33.
   C) 0.67.
   D) 0.375.

33) If the required reserve ratio is one-third, currency in circulation is $300 billion, and checkable deposits are $900 billion, then the level of excess reserves in the banking system is
   A) $300 billion.
   B) $30 billion.
   C) $3 billion.
   D) 0.

34) If the required reserve ratio is one-third, currency in circulation is $300 billion, and checkable deposits are $900 billion, then the monetary base is
   A) $300 billion.
   B) $600 billion.
   C) $333 billion.
   D) $667 billion.