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Practice Questions for OpenStax Economics 2nd Edition

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Practice Questions to supplement Economics 2e

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Section 1: Practice Questions for Chapter 3 part 1: Demand and Supply Model

1. The law of demand indicates that as _____ increases, _____ decreases.

1. price, demand
2. quantity demanded, quantity supplied
3. price, supply
4. price, quantity demanded.

Answer #1: D (The law of demand says that a higher price of a good, other things equal, leads people to demand a smaller quantity of the good.

2. A demand curve is a graphical representation of the _____.

1. Demand schedule
2. Supply Schedule
3. Law of supply
4. Price

Answer #2: A. Demand curve shows how much of a good or service consumers want to buy at a given price

The table below shows the demand and supply schedule for milk. Please answer questions 3-5 based on Table 3.1.

Price per Pound	Qd	Qs
\$4.50	775	565
\$4.70	725	625
\$4.90	675	675
\$5.10	645	725
\$5.30	625	745
\$5.50	615	755

Table 3.1: Demand and Supply Schedules for milk.

3. Based on Table 3.1, What is the market-clearing price in this market?

1. \$4.5
2. \$4.9
3. \$5.10
4. \$5.50

Answer #3: The milk market clears when there is no shortage or surplus in the market. At a price of \$4.90 per gallon, the milk market will be cleared.

4. Based on Table 3.1, if price of milk is \$4.70 per gallon, then the market experiences a _____ and we have _____ pressures on prices.

1. shortage, downward
2. shortage, upward
3. surplus, downward
4. surplus, upward

Answer #4: C, when quantity demanded exceeds quantity supplied, the market is said to have a SURPLUS and whenever there is a surplus in any well-functioning market, prices tend to GO DOWN.

5. Based on Table 3.1, which of the following is INCORRECT.

1. at a price of \$5.10, the market is experiencing a surplus in the amount of 80 units.
2. at a price of \$5.50, the market is experiencing a surplus in the amount of 140 units.
3. at a price of \$4.70, the market is experiencing a shortage in the amount of 100 units.
4. at a price of \$5.30, the market is experiencing a shortage in the amount of 120 units.

Answer #5: D. At a price of \$5.30, the market is experiencing a surplus in the amount of 120 units.

The table below shows the demand and supply schedule for milk. Please answer question 6 based on Table 3.2.

Price per Pound	Qd Jan & Feb	Qs Jan	Qs Feb
\$4.50	775	565	590
\$4.70	725	625	650
\$4.90	675	675	700
\$5.10	645	725	750
\$5.30	625	745	770
\$5.50	615	755	780

Table 3.2: Demand and Supply Schedules for milk.

6. Based on Table 3.2, which of the following could cause a change in the supply of milk from January to February?

1. the income of milk customers have risen
2. The largest milk supplier in the market declared bankruptcy.
3. A new technological improvement in milk production
4. The city was hosting a major sporting event as a result population increased temporarily.

Answer #6: C. The table shows a positive supply shock as we observe an increase in quantity supplied at each level of prices. Answer choices A and D are positive demand shocks, answer choice B is a negative supply shock, and answer C is a positive supply shock.

The table below shows the demand and supply schedule for milk. Please answer question 7 based on Table 3.3.

Price per Pound	Qd 2018	Qd 2019	Qs 2018 & 2019
\$3.00	750	540	540
\$3.20	700	490	600
\$3.40	650	440	650
\$3.60	620	410	700
\$3.80	600	390	720
\$4.00	590	380	730

Table 3.3: Demand and Supply Schedules for milk.

7. Based on Table 3.3, what are the market equilibrium price and quantity numbers in 2018?

1. P= \$3, Q= 540
2. P= \$3.40 , Q= 650.
3. P= \$3.40, Q= 650
4. P= \$4.00, Q= 730.

ANSWER #7: C. In 2018, when the price is \$3.40 per gallon, the quantity supplied is 650 units and the quantity demanded is 650.

8. Based on Table 3.3, what are the market equilibrium price and quantity numbers in 2019?

1. $P = \$3, Q = 540$
2. $P = \$3.40, Q = 650$.
3. $P = \$3.40, Q = 650$
4. $P = \$4.00, Q = 730$.

ANSWER #8: A. In 2019, when the price is \$3.00 per gallon, the quantity supplied is 540 units and the quantity demanded is 540.

Section 2: Practice Questions for Chapter 3 part 2: Price Ceilings, Price Floors and Efficiency

1. A price ceiling keeps a price from _____ above a certain level (the "ceiling"), while a price floor keeps a price from _____ below a given level (the "floor")

1. rising, falling
2. falling, rising
3. shining, discounted
4. competition, discrimination

Answer: A. A price ceiling keeps a price from rising above a certain level (the "ceiling"), while a price floor keeps a price from falling below a given level (the "floor")

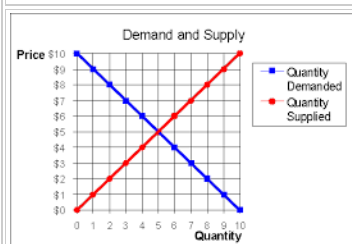


Figure 3.1

Please answer questions 2-4 based on Figure 3.1.

2. According to Figure 3.1, if the government imposes a price floor of \$2 per unit,

1. the market equilibrium quantity will decrease from 5 to 2 units.
2. the price floor is binding, as a result, the price will go down to \$2. .
3. the price floor is not binding, as a result, the price will stay at \$5 per unit.
4. it is against the constitution to impose a price floor below the market-clearing price.

Answer: C, if the price floor is set below the market-clearing price, it will be non-binding and market equilibrium price and quantities will not be affected.

3. According to Figure 3.1, if the government imposes a price ceiling of \$2 per unit,

1. the market equilibrium quantity will decrease from 5 to 2 units.
2. the price ceiling is binding, as a result, the price will go up by \$2 to \$7.
3. the price ceiling is not binding, as a result, the price will stay at \$5 per unit.
4. the price ceiling is not binding, as a result, the quantity will stay at 5 unit.

Answer: A, if the price ceiling is set below the market-clearing price, it will be binding and the market equilibrium price will be the price ceiling and the equilibrium quantity will be determined by the supply curve.

4. According to Figure 3.1, which of the following CAN NOT be said about this market?

1. Any price floor set above \$5 is binding
2. Any price ceiling set below \$5 is binding
3. If the government imposes a price ceiling of \$3 per unit, as a result, the market will experience a shortage in the amount of 4 units.
4. If the government imposes a price floor of \$4 per unit, as a result, the market will experience a shortage in the amount of 2 units.

5. Suppose the market-clearing price of wheat is \$10.00 per pound, but the government establishes a legally-mandated price floor at \$12.00 per pound. The newly legislated price tends to

1. create a shortage of wheat
2. increase the quantity demanded of wheat
3. increase the production of wheat
4. protect the customer of wheat.

Answer: C. Any price floor set above \$10 is binding. In this question, \$12 is binding, as a result, quantity supplied hence the production of wheat will increase while the quantity demanded will decrease due to increase in the price of wheat.

Section 3: Practice Questions for Chapter 4: Labor and Financial Markets

1. In the labor market, the product is the _____, demand for labor comes from ____ and the supply is provided by_____.

1. labor, firms, workers
2. labor, workers, firms
3. labor, workers, the government
4. wages, households, firms

Answer: A. In the labor market, the product is the labor, demand for labor comes from firms, and the supply is provided by workers.

2. The “law of supply” in the labor markets works in the following way; a _____ wages for labor leads to a _____ quantity of labor supplied.

1. higher, higher
2. higher, lower
3. lower, no change in
4. lower, higher

Answer: A. Due to the law of supply, we have an upward-sloping supply curve leading to a positive relationship between the price of the product and the quantity of labor supplied. When the price rises, the quantity of labor supplied rises. When the price falls, the quantity of labor supplied falls.

3. What happens to the demand curve for low-skill labor as the technology substitute for low-skill labor becomes available?

1. the demand curve for low-skill labor shifts to the left
2. the demand curve for low-skill labor shifts to the right
3. the demand curve for low-skill labor does not shift
4. the demand curve for low-skill labor is not related to the technology substitute for low-skill labor

Answer A. Any technological improvement that substitutes labor lowers the demand for labor. Any technological improvement that complements labor raises the demand for labor.

4. The table below describes the labor market for nurses.

Salary	Quantity demanded per year	Quantity supplied per year
\$50,000	380,000	130,000
\$55,000	330,000	155,000
\$60,000	180,000	180,000
\$65,000	130,000	230,000
\$70,000	105,000	305,000

Using the data from the table, at the annual salary of \$65,000 per year, the market experiences a _____ nurses in the amount of _____?

1. surplus of, 230,000 nurses
2. shortage of, 100,000 nurses
3. surplus of, 100,000 nurses
4. shortage of, 130,000 nurses

Answer: C. At the annual salary of \$65,000 per year, companies want to hire (quantity demanded) 130,000 nurses while in the market there 230,000 nurses who want to work. As a result, the market experiences a surplus of nurses in the amount of $230,000 - 130,000 = 100,000$ nurses.

5. Usury laws can be considered as _____ on the interest a lender can impose.

1. price ceiling
2. price control

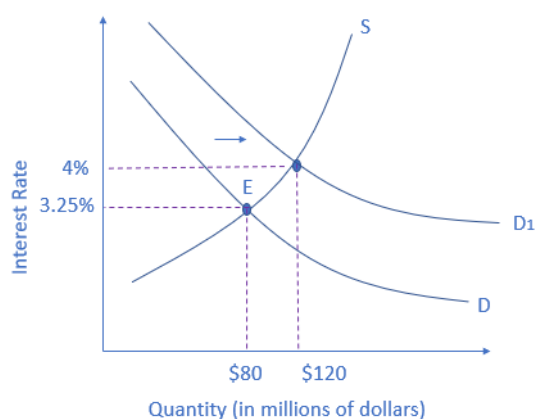
Answer: A. A usury law imposes an upper limit on the interest rate, hence it can be considered as a price ceiling to protect borrowers in the market.

6. What will happen in the financial markets if the government passes a law that institutes a maximum interest rate that is below the market interest rate?

1. more people will want to save at this lower interest rate
2. fewer people will want to borrow (obtain credit cards)
3. it will create a shortage of people saving money.
4. it will not affect the market equilibrium

Answer: C. It is a binding price ceiling. As a result, the interest rate will fall, it will discourage savings and encourages borrowing. Hence, there will be a shortage of people saving money and a surplus of people willing to borrow money.

Student Loan market



7. Which of the following can contribute to the rightward shift in the demand curve in the student loan market

1. the government has loosened the regulation in the market making it easier for creditors to provide student loan
2. the government imposes new regulation in the market making more time consuming and expensive for creditors to provide loan
3. the economy is booming and there are fewer people in the market for college education than before
4. the economy is in a recession and many people stopped looking for work instead they will try to complete their degrees

Answer: D. The graph shows a positive demand shock in the market. Answer choice A is a positive supply shock, choice B is a negative supply shock, choice C is a negative demand shock and choice D is a positive demand shock.

Section 4: Practice Questions for Chapter 12: Environmental Protection and Negative Externalities

1. In a market transaction, if a third party who is neither a buyer nor a seller suffers from that market transaction, the situation is best described as:

1. positive externality
2. negative externality
3. market efficiency
4. market intervention

Answer: B

2. Which of the following is an example of positive spillover (externality) in the market?

1. second-hand cigarette smoke
2. air pollution generated by a steel mill
3. college education
4. extreme noise caused by a nearby construction site

Answer: C. All other options are examples of a negative externality.

3. If the production of a good generates positive externality, then the government could increase efficiency by _____ production of the good.

1. taxing
2. subsidizing
3. limiting
4. banning

Answer: B. When there is positive externality in the market, the market outcome is below the optimal level of production hence to increase the efficiency, the production should be encouraged.

4. Each pack of cigarettes costs the companies \$4 to produce but it creates \$1 external cost per pack to the society. If the government wants to internalize the externality, what should be the best course of action?

1. subsidize cigarette producers \$1 per pack
2. subsidize cigarette consumers \$1 per pack
3. tax cigarette producers \$1 per pack
4. subsidize cigarette producers \$3 per pack

Answer: C. When there is a negative externality in the market, the government can improve efficiency by imposing a tax called Pigovian tax and it is determined by the following formula: tax per unit = social cost per unit - private cost per unit = external cost per unit. In this question, the private cost is \$4 per pack, the external cost is \$1, the social cost = private cost + external cost = \$4 + \$1 = \$5. Therefore, imposing \$1 tax per pack can achieve efficiency in the market.

5. Which of the following statement is **incorrect** in a market where there is no externality and price and output are determined in a perfectly competitive market?

1. the socially optimal level of output can be achieved by market equilibrium
2. costs of production will be the same as society's costs
3. there is no external cost in the market
4. social benefit is higher than the private benefit

Answer D. If there is no externality in the market, then we have external cost = external benefit = 0. As a result, private cost = social cost, private benefit = social benefit.

The table below shows the supply and demand conditions facing a toy factory in Valdosta that makes plastic cars and generates a negative externality by dumping a highly toxic residue in a nearby river. Please answer questions 6 and 7 by using the Table below.

Price	Quantity Demanded	Quantity Supplied without Paying Social Costs	Quantity Supplied after Paying Social Costs
88	9	129	69
68	19	109	49
43	39	99	39
28	64	94	34
18	89	89	29
8	109	74	14

Table 12.1

6. Given the information in Table 12. 1, what is the market equilibrium in the absence of government intervention?

1. P= \$18, Q=89
2. P= \$43, Q=39
3. P= \$8, Q=109
4. P= \$88, Q=9

Answer: A. Market equilibrium is determined by the intersection of the demand curve (private value) and supply curve (private cost). Market equilibrium will be achieved when the price per unit is \$18 and the amount produced and consumed is 89 units.

7. Given the information in Table 12. 1, what is the socially optimal level of output and prices in the market?

1. P= \$18, Q=89
2. P= \$43, Q=39
3. P= \$8, Q=109
4. P= \$88, Q=9

Answer: B. Efficiency in the market can be achieved when social cost= social benefit at the margin. According to the information given, the demand curve captures both the private and social benefits as there is not external benefit in consumption. On the other hand, there is a negative externality in the economy as each output produced in the economy creates some external cost. The socially optimal level of output can be achieved when the price is set \$43. At that level of prices, social benefit = social cost= 43.

Section 5: Practice Questions for Chapter 13: Positive Externalities and Public Goods

1. Which of the following is an example of a **free-rider** problem?

1. a family enjoying a live music concert from their backyard near the stadium.
2. homeowners tying into a gas line after a neighbor paid to bring the mainline onto the street
3. a traveler visiting Orlando using a highway that charges tolls
4. a local homeowner sending their kids to a nearby public school funded by the local property tax

Answer: A. When an individual doesn't pay for something but uses it anyway, the situation is then called a free-rider problem. In answer choice A, the family benefits from a service they do not pay for it.

2. Which of the following matching is incorrect?

1. national defense: common good
2. gym membership: private good
3. ice cream: private good
4. uncongested nontall road: public good

Answer: A. national defense is nonexcludable and nonrival in consumption. Hence, it can be considered as a public good.

3. An example of a club good would be:

1. national defense
2. public park
3. iPhone
4. uncongested tall road

Answer: D. Club goods are excludable but non-rival in consumption. National defense is non-rival but non-excludable. A public park is non-rival if noncongested but it is nonexcludable. iPhone is a private good. The uncongested tall road is excludable and nonrival.

4. If there is positive externality in production, what will be the best course of action by government to increase efficiency in the market?

1. tax the producer
2. tax the consumer
3. subsidize the production
4. ban the production

Answer: C. In the case of a positive externality, market -determined output level will be less than the socially-optimal level of output as the market tends to underproduce socially beneficial goods and services. Hence, the best course of action is to promote more production and one way of doing it is to incentivize the producers by a subsidy.

5. College education is believed to create positive spillover effect. Which of the followings is not a good policy for a government seeking efficiency in the market.

1. making tuition expenses tax deductible
2. provide tax cut for creditors who provide student loans in the market
3. making public universities more affordable
4. increase the corporate income tax in higher education

Answer: D. When there is positive spillover effect in the market, the government can encourage production to improve efficiency. Answer D will make the cost of education expensive, as a result less people will be able to get a degree with the new policy.

6. Which of the following is NOT a true statement about the tragedy of the commons problem?

1. the lack of enough incentives for individuals to protect the common resources contributes to the problem
2. the lack of ownership of common resources causes private parties to take as much as they need of that resource
3. Fees and restricted access can be a good way to prevent overuse of a common resource.
4. Common resources are the goods that are very easy to exclude individuals from using it.

Answer: D. Common goods are non excludable. Hence, it is not that easy to prevent people from using it.

Section 6: Practice Questions for Chapter 17: Financial Markets

1. How do businesses raise financial capital?

- a. By reinvesting profits.
- b. By borrowing from banks.
- c. By selling stocks or bonds.
- d. All of the above.

ANSWER: d. (content from introduction in section 17.1)

2. Which of the following financial investments would be considered the most liquid?

- a. Bonds
- b. Savings account
- c. Gold
- d. Checking account

ANSWER: d. (content from section 17.2, subsection The Tradeoffs between Return and Risk)

3. The Random Walk Theory suggests that on any given day:

- a. stock prices are equally likely to rise as they are to fall.
- b. stock prices are more likely to rise than fall.
- c. stock prices are less likely to rise than fall.
- d. None of the above.

ANSWER: a. (content from section 17.3, subsection Why It Is Hard to Get Rich Quick: The Random Walk Theory)

4. According to the text, what is the easiest way to accumulate wealth during your lifetime?

- a. Get additional education.
- b. Get additional training.
- c. Start saving money early in life.
- d. All of the above.

ANSWER: d. (content from section 17.3, subsection Getting Rich the Slow, Boring Way)

5. If you have \$1000 in the bank and you earn a bank interest rate of 8%, what would be the future value of your money after one year?

ANSWER: \$1080 (content from section 17.3, subsection WORK IT OUT, Simple and Compound Interest)

6. If you have \$1000 in the bank and you earn a bank interest rate of 7% each year for four years, what would be the amount of compound interest you earned after four years?

ANSWER: \$310.80 (content from section 17.3, subsection WORK IT OUT, Simple and Compound Interest)

Section 7: Practice Questions for Chapter 19: The Macroeconomic Perspective: GDP

1. Gross Domestic Product

1.
 1. equals the value of all goods and services produced within a country in a given year.
 2. equals the value of all final goods and services produced within a country in a given year.
 3. equals the value of all goods produced within a country in a given year.
 4. equals the value of all services produced within a country in a given year.

ANSWER: b. (content from introduction in section 19.1)

2. The components (all in billions of dollars) for a particular country are as follows:

Consumption = 15; Exports = 3; Durable goods = 4; Nondurable goods = 2; Imports = -5; Investment = 5; and Government = 4. What is the GDP for this country?

ANSWER: \$22 billion (content from section 19.1, subsection GDP Measure by Components of Demand)

3. If a country's nominal GDP in a given year is \$843 billion and the corresponding GDP deflator equals 115, what would this country's real GDP equal?

ANSWER: \$733 billion (content from section 19.2, subsection Converting Nominal to Real GDP)

4. Which of the following (if any) is/are correct?

1.
 1. A recession lasts from trough to peak.
 2. A recovery lasts from peak to trough.
 3. A recovery lasts from trough to peak.
 4. Both a. and c. are correct.

ANSWER: c. (content from section 19.3)

5. When comparing GDP among countries, what are the two issues we must consider?

1.
 1. Population and geography
 2. Population and differing currencies
 3. Geography and differing currencies
 4. Geography and climate

ANSWER: b. (content from introduction in section 19.4)

6. If India's GDP in billions of rupees equals 120,000 and 1 US dollar equals 70 rupees, what would India's GDP be in US dollars?

ANSWER: \$1714.29 billion (content from section 19.4, subsection WORK IT OUT, Converting GDP to a Common Currency)

7. True or False? GDP captures all of the elements of standard of living.

ANSWER: False (content from section 19.5)

Section 8: Practice Questions for Chapter 20: Economic Growth

1. Which of the following are important for economic growth?

1. Rule of law
2. Protection of property rights
3. Protection of contractual rights
4. All of the above

ANSWER: d. (content from section 20.1, subsection Rule of Law and Economic Growth)

2. What are the three determinants of labor productivity?

1. Production, cost, and industry structure
2. Human capital, technological change, and economies of scale
3. Technological change, invention, and innovation
4. Education, experience, and skills

ANSWER: b. (content from introduction in section 20.2)

3. Which of the following are components of economic growth?

1. Physical capital
2. Human capital
3. Technology
4. All of the above

ANSWER: d. (content from introduction in section 20.3)

4. In a market-oriented economy with supportive government policies, human capital deepening, physical capital deepening, and technological gains are signs of:

1. A healthy climate for economic growth.
2. Convergence of economic growth.
3. Rule of law.
4. A special economic zone.

ANSWER: a. (content from section 20.3, subsection A Healthy Climate for Economic Growth)

5. Why might low-income countries have an advantage over high-income countries in achieving greater economic growth?

1. Higher education levels
2. Diminishing marginal returns
3. Access to newer technologies
4. Better rule of law

ANSWER: b. (content from section 20.4, subsection Arguments Favoring Convergence)

Section 9: Practice Questions on Chapter 21: Unemployment

1. Which of the following person can be considered in the labor force?

1. Danny is a stay-at-home dad and he volunteers teaching math at their community.
2. Karen quit her job in order to take care of her sick parents.
3. Ronald stopped looking for work three months ago after being in the market for more than a year without a successful job hunt.
4. John is working full-time at her company's corporate office.

Answer: Danny is not in the labor force. Karen is a marginally attached worker and she is not in the labor force. Ronald is a discouraged worker and discouraged workers are not in the labor force. John is in the labor force as employed.

2. Assume that an economy consists of 800,000 individuals 16 years and older, 460,000 are employed, and 21,000 are unemployed but actively seeking work. What is the unemployment rate in this economy?

1. 4.37%
2. 4.56%
3. 2.62%
4. 21%.

Answer: A. Labor force = number of employed + number of unemployed = 460,000 + 21,000 = 481,000. Unemployment rate = $100 \times \text{number of unemployed} / \text{Labor Force} = 100 \times 21,000 / 481,000 = 4.37\%$

3. Henry left his position as financial analyst voluntarily to search for a job in San Diego, near to his girlfriend. Henry is considered

1. cyclically unemployed.
2. structurally unemployed.
3. frictionally unemployed.
4. not employable.

Answer: C. Henry is in between jobs.

4. Steel workers laid off from KTK Steel company as the result of a recession are considered

1. cyclically unemployed.
2. structurally unemployed.
3. frictionally unemployed.
4. not employable.

Answer: A. If a person is out of job due to recession, they are classified as cyclically unemployed.

5. Actual unemployment will be higher than the natural rate of unemployment if

1. cyclical unemployment is positive
2. cyclical unemployment is positive
3. cyclical unemployment is zero.
4. the economy is at its long run path.

Answer: A. Actual unemployment = natural rate of unemployment + cyclical unemployment. When cyclical unemployment > 0 , we have Actual unemployment $>$ natural rate of unemployment. Likewise, when cyclical unemployment < 0 , we have Actual unemployment $<$ natural rate of unemployment. When the economy is at its long run path, cyclical unemployment = 0, Actual unemployment = natural rate of unemployment.

Section 10: Practice Questions on Chapter 22: Inflation

1. If the index number for the price level in an economy is 101 for period 2 and it is 98 for period 1, what would the inflation rate be?

ANSWER: 3.06% (content from section 22.1, subsection Index Numbers)

2. What is the most commonly cited measure of inflation in the U.S.A.?

1. The Producer Price Index
2. The Gross Domestic Product deflator
3. The Consumer Price Index
4. The Employment Cost Index

ANSWER: c. (content from introduction in section 22.2)

3. True or False. In general, during a recession, inflation tends to be lower.

ANSWER: True (content from section 22.3, subsection Historical Inflation in the U.S. Economy)

4. Which of the following are problems that can be caused by inflation?

1. Problems of short-term planning
2. Unintended redistributions of purchasing power
3. Clear price signals
4. All of the above

ANSWER: b. (content from section 22.4)

5. Indexing can be used to counter inflation. Some examples are:

1. COLAs
2. ARM
3. The Social Security Indexing Act of 1972
4. All of the above.

ANSWER: d. (content from section 22.5)

Section 11: Practice Questions on Chapter 27: Money and Banking

1. Which of the following statements is true?

1. Money serves as a medium of exchange, a store of value, and a unit of account, but not a standard of deferred payment.
2. Money serves as a medium of exchange and a store of value, but not a unit of account nor a standard of deferred payment.
3. Money serves as a standard of deferred payment, a medium of exchange, a unit of account, and a store of value.
4. Money serves as a medium of exchange, a unit of account, and a standard of deferred payment, but not a store of value.

ANSWER: c. (content from section 27.1, subsection Functions of Money)

2. Which of the following are part of the M2 money supply?

1. Coins and currency in circulation
2. Traveler's checks
3. Savings deposits
4. All of the above.

ANSWER: d. (content from introduction in section 27.2)

3. Banks act as financial intermediaries by:

1. Taking deposits from savers and providing loans to borrowers.
2. Taking deposits from borrowers and providing loans to savers.
3. Taking deposits from savers and borrowers and then lending to each.
4. Repaying loans to borrowers and charging interest to savers.

ANSWER: a. (content from section 27.3, subsection Banks as Financial Intermediaries)

4. A bank has the following items on its balance sheet: Loans = \$10 million; Deposits = \$20 million; Reserves = \$4 million; and U.S. government securities = \$8 million. How much is this bank worth?

ANSWER: \$2 million (content from section 27.3, subsection A Bank's Balance Sheet)

5. True or False. Bank Capital equals Assets plus Liabilities.

ANSWER: False (content from section 27.3, subsection A Bank's Balance Sheet)

6. Which of the following is true for a bankrupt bank?

1. Assets > Liabilities
2. Assets = Liabilities
3. Assets < Liabilities
4. None of the above

ANSWER: c. (content from section 27.3, subsection How Banks Go Bankrupt)

7. If the reserve requirement equals 15%, what is the value of the money multiplier?

ANSWER: 6.67 (content from section 27.4, subsection The Money Multiplier and a Multi-Bank System)

Section 12: Practice Questions on Chapter 28: Monetary Policy and Banks Regulation

1. What does a central bank NOT do?

1. Conduct monetary policy
2. Conduct fiscal policy
3. Promote financial stability
4. Provide banking services to the federal government

ANSWER: b. (content from section 28.1, subsection What Does a Central Bank Do?)

2. Which choice best describes the Federal Reserve?

1. Semi-decentralized
2. Completely decentralized
3. Centralized
4. Semi-centralized

ANSWER: a. (content from section 28.1, subsection Structure/Organization of the Federal Reserve)

3. In the U.S., which bank regulatory agency supervised foreign banks with branches in the U.S.?

1. The NCUA
2. The OCC
3. The Federal Reserve
4. The IRS

ANSWER: b. (content from section 28.2, subsection Bank Supervision)

4. Which of the following would increase the money supply?

1. A sale of bonds by the central bank
2. A purchase of bonds by the central bank
3. A purchase of bonds by individual banks
4. A sale of bonds by individual banks

ANSWER: b. (content from section 28.3, subsection CLEAR IT UP: Does selling or buying bonds increase the money supply?)

5. What are the traditional tools of monetary policy?

1. Open market operations
2. Changing reserve requirements
3. Changing the discount rate
4. All of the above

ANSWER: d. (content from section 28.3)

6. How does a central bank raise interest rates?

1. Using open market operations to increase bank reserves
2. Using open market operations to decrease bank reserves
3. By lowering the discount rate
4. By lowering the reserve requirements

ANSWER: b. (content from section 28.4, subsection The Effect of Monetary Policy on Interest Rates)

7. Which of the following best describes expansionary monetary policy?

1. The supply of money and loanable funds decreases, which lowers the interest rate, increasing investment and consumption, and eventually real GDP and the price level.
2. The supply of money and loanable funds increases, which increases the interest rate, lowering investment and consumption, and eventually real GDP and the price level.
3. The supply of money and loanable funds increases, which lowers the interest rate, increasing investment and consumption, and eventually real GDP and the price level.
4. The supply of money and loanable funds increases, which lowers the interest rate, increasing investment and consumption, but real GDP and the price level drop.

ANSWER: c. (content from section 28.4, subsection The Effect of Monetary Policy on Aggregate Demand)