**Economics 203/Test 4 (Put your name on your scantron)**

1. The rate of inflation is measured as

a. 100% x (CPI this month – CPI last month)/CPI last month

b. 100% x (Fed Funds Actual Rate – Fed Funds Target Rate)

c. CPI this month – CPI last month

d. none of the above

2. The federal organization that pays bills, collects revenue, and borrows money for the U.S. government is

a. the Federal Reserve b. the U.S. Department of Treasury

c. the Office of Management and Budget d. none of the above

3. The federal organization with the power to create new money is

a. the Federal Reserve b. the U.S. Department of Treasury

c. the Office of Management and Budget d. none of the above

4. The primary decision making group with the Fed, is

a. the Securities and Exchange Commission

b. the Comptroller of the Currency

c. the Council on Monetary Affairs

d. none of the above

5. “Open market” operations by the Fed refers to

a. spending on behalf of the U.S. government

b. buying or selling gold in international markets

c. changes the ratio of bank accounts to money held at home

d. buying or selling U.S. Treasury Bills, Notes, or Bonds in

6. During the late 1970s and early 1980s, the U.S. experienced

a. high levels of inflation and low levels of interest rates

b. low levels of inflation and high levels of interest rates

c. low levels of inflation and interest rates

d. high levels of inflation and interest rates

7. Which of the following is an important bank-to-bank lending rate?

a. the 3-month Treasury Bill rate b. LIBOR

c. Prime rate d. none of the above

8. The term “fractional reserve system” for the U.S. banking system means that

a. banks hold part of their reserves in their vaults and part with the Fed

b. banks must hold part of their reserves with the U.S. Treasury System

c. banks hold only part of deposited money and lend most of it

d. none of the above

9. In our discussion of causes of the crash of 2008, we discussed how debt played a big role. From 2000 to 2008

a. the amount of debt doubled from about $25T to about $50T

b. almost all of this debt was incurred in home mortgage markets

c. incomes grew at about the same rate as debt

d. lending for commercial projects actually diminished

which of the following factors played the biggest role?

10. Which of the following was a key event in the timeline leading up or into the Crash of September 2008?

a. the failure of investment bank Bear Stearns in March 2008

b. the spiking of oil and commodity prices in the summer of 2008

c. the decline in real estate prices and rise in mortgage problems in 2007

d. all of the above

11. We used the Las Vegas City Center project as an example of

a. a government-sponsored enterprise extending credit too far

b. illustration of the mortgage debt problems

c. evidence of the high rate of expansion of the money supply

d. none of the above

12. A money standard based on a fixed conversion rate to gold

a. requires a commitment by government to maintain sound policies that make the system keep working just as a paper money standard

b. is much more reliable than a paper money standard because the conversion rate cannot be changed

c. is what helped many countries avoid the Great Depression unlike countries on a paper standard

d. means that inflation or deflation can never occur

13. The interest rates that we observe, “nonimal rates,” reflect the real price of borrowing plus

a. the premium added in by the U.S. Treasury

b. an expected inflation premium

c. an adjustment for anticipated gold price movements

d. all of the above

14. According to the Friedman video/text, the banking crisis of the early 1930s was made much worse because which of the following entities did not perform their prescribed duties?

a. Bank of the U.S. b. Federal Reserve System

c. International Monetary Fund d. none of the above

15. Inflation reflects

a. changes in the supply or demand of money

b. the difference between bank lending and deposit rates

c. the rate of growth of the economy

d. changes in the price of energy

16. The short term loans by non-bank companies such as GE Finance

a. is called the commercial paper market

b. helps fund a variety of purchases including credit cards and automobiles

c. makes up part of the “wholesale” (company to company) money market

d. all of the above

17. Which federal agency known has the mission and some ability to stem system-wide panics in the banking system:

a. the FDIC b. The Fed

c. the SEC d. all of the above

18. Which of the following reflects interest payments on short term loans between U.S. banks: government?

a. the Fed Funds rate b. the Discount rate

c. the LIBOR rate d. the Treasury Bill rate

19. Congress created the Federal Reserve System largely in response to

a. the Great Depression of the 1930

b. the banking panic of 1907

c. the end of World War II and economic problems in Europe

d. none of the above

20. The current Chairman of the Fed is

a. Alan Greenspan b. Timothy Geithner

c. Ben Bernanke d. Paul Volker Who sits on the Federal Open Market Committee?

d. all of the above

21. Put “A” for the answer

Correct Answers: 1a, 2b, 3a, 4d, 5d, 6d, 7b, 8c, 9a, 10d, 11d, 12a, 13b, 14b, 15a 16d, 17b, 18a or c, 19b, 20c