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

1. The total GDP of the European Union countries is about

a. $5 trillion b. $10 trillion

c. $15 trillion d. $25 trillion

2. The Euro began to be used as the common currency for most EU countries in

a. 2005 b. 1999

c. 1987 d. 1971

3. Which of the following is a general difference between EU countries:

a. higher GDP per person in the north

b. higher fiscal deficits in the south

c. higher bond interest rates in the south

d. all of the above

4. Which 3 EU countries do not use the Euro:

a. France, Belgium, Switzerland b. UK, Sweden, Denmark

c. Norway, Luxemborg, Portugal d. none of the above

5. Which of the following was a fundamental problem in the design of the monetary union in the EU?

a. too many individual currencies operating underneath the Euro

b. no clear-cut ways of restraining or dealing with different fiscal practices among countries

c. the lack of a central bank, like the Fed, that can coordinate monetary practices across countries

d. all of the above

6. Which country is “next in line” in terms of impending fiscal problems for the EU?

a. Portugal b. Denmark

c. Netherlands d. Slovakia

7. Which of the following is the main tool that the Federal Reserve System uses to exert influence in the economy?

a. money supply b. Fed Funds rate

c. reserve requirements d. none of the above

8. The Federal Reserve System is part of

a. the U.S. Department of Treasury b. the Internal Revenue Service

c. the U.S. Mint d. none of the above

9. During what time period did interest rates reach historically high levels in the U.S. in response to excessive money creation and high inflation?

a. the late 1970s and early 1980s b. the late 1980s and early 1990s

c. the late 1990s and early 2000s d. none of the above

10. Which of the following reflects short term loans to the U.S. government?

a. Treasury Bill rate b. LIBOR

c. Fed Funds rate d. none of the above

11. 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

12. The German hyperinflation of the early 1920s reflects the typical causes of other hyperinflations. These are

a. an inability to raise revenue and the use of money creation to pay government bills

b. the switch from a gold standard to a paper standard

c. the increase of the population rapidly relative to resources

d. none of the above

13. The “Fisher Equation” for nominal interest rates is

a. Nominal Rate = Fed Funds Rate + Inflation Rate

b. Nominal Rate = Real Rate + Expected Inflation

c. Nominal Rate = LIBOR + TBill rate

d. none of the above

14. 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

15. Which of the following is part of the “wholesale” money market?

a. loans made by large non-banking firms such as GE

b. bank deposits by households

c. bank deposits by businesses

d. all of the above

16. The Federal Reserve System

a. has the ability to stem system-wide panics in the banking system by acting as lender of last resort

b. increases and decreases the amount of money in circulation through its Open Market Committee

c. has central district office in St. Louis overseeing banks in the region in which Bowling Green resides

d. all of the above

17. In large part, Congress created the the Federal Reserve System in response to

a. the Revolutionary War debt problem

b. the Civil War

c. the Bank Panic of 1907

d. the Great Depression of the 1930s

18. 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 Commerce

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

19. Bowling Green is in which Federal Reserve District?

a. Chicago b. Atlanta

c. Cincinnati d. St. Louis

20. How does the “wholesale” money market matter for consumers/households?

a. by funding things such as credit card purchases

b. by providing basic banking services like deposits

c. by voting on the FOMC

d. none of the above

21. Put “A” for the answer

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