

## Chapter 5

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### Monetary Policy

1. The Fed can \_\_\_\_\_ the level of spending as a means of stimulating the economy by \_\_\_\_\_ the money supply.
- A) increase; decreasing
  - B) decrease; increasing
  - C) decrease; decreasing
  - D) increase; increasing

ANSWER: D

2. A credit crunch can occur in periods:
- A) when a stimulative monetary policy is implemented.
  - B) when a restrictive monetary policy is implemented.
  - C) when both of these occur.
  - D) when neither of these occur.

ANSWER: C

3. In general, there is a(n):
- A) positive relationship between unemployment and inflation.
  - B) inverse relationship between unemployment and inflation.
  - C) inverse relationship between GNP and inflation.
  - D) positive relationship between GNP and unemployment.

ANSWER: B

4. A \_\_\_\_\_ money policy can reduce unemployment, and a \_\_\_\_\_ money policy can reduce inflation.
- A) tight; loose
  - B) loose; tight
  - C) tight; tight
  - D) loose; loose

ANSWER: B

5. A loose money policy tends to \_\_\_\_\_ economic growth and place \_\_\_\_\_ pressure on the inflation rate.
- A) stimulate; downward
  - B) stimulate; upward
  - C) dampen; upward
  - D) dampen; downward

ANSWER: B

6. \_\_\_\_\_ serves as the *most* direct indicator of economic growth in the United States.
- A) GDP
  - B) National income
  - C) The unemployment rate
  - D) The industrial production index

ANSWER: A

7. Which of the following is *not* an indicator of inflation?
- A) housing price indexes
  - B) wage rates
  - C) oil prices
  - D) consumer confidence surveys

ANSWER: D

8. The M2 money supply is a \_\_\_\_\_ economic indicator.
- A) leading
  - B) lagging
  - C) coincident
  - D) none of these

ANSWER: A

9. Manufacturing and trade sales are a \_\_\_\_\_ economic indicator.
- A) leading
  - B) lagging
  - C) coincident
  - D) none of these

ANSWER: C

10. The average prime rate is a \_\_\_\_\_ economic indicator.
- A) leading
  - B) lagging
  - C) coincident
  - D) none of these

ANSWER: B

11. The time lag between when an economic problem arises and when it is reported in economic statistics is the \_\_\_\_\_ lag.
- A) recognition
  - B) implementation
  - C) impact
  - D) open-market

ANSWER: A

12. The time between when an economic problem is realized and when the Fed tries to correct it with its policies is the \_\_\_\_\_ lag.
- A) recognition
  - B) implementation
  - C) impact
  - D) open-market

ANSWER: B

13. The time between when the Fed adjusts the money supply and when interest rates change reflects the \_\_\_\_\_ lag.
- A) recognition
  - B) implementation
  - C) impact
  - D) open-market

ANSWER: C

14. Which of the following best describes the relationship between the Fed and the Administration?
- A) The Fed must receive approval by the Administration before conducting monetary policy.
  - B) The Fed must implement a monetary policy specifically to the support the Administration's policy.
  - C) The Administration must receive approval from the Fed before implementing fiscal policy.
  - D) None of these statements describe the relationship between the Fed and the Administration.

ANSWER: D

15. When the Fed attempts to counter rising rates (caused by an increase in the budget deficit) by loosening the money supply, this is known as:
- A) monetizing the debt.
  - B) the crowding-out effect.
  - C) both monetizing the debt and the crowding-out effect.
  - D) neither of these.

ANSWER: A

16. International flows of funds can affect the Fed's monetary policy. For example, if there is downward pressure on U.S. interest rates that can be offset by foreign \_\_\_\_\_ of funds, the Fed may not feel compelled to use a \_\_\_\_\_ monetary policy.
- A) inflows; loose
  - B) inflows; tight
  - C) outflows; loose
  - D) outflows; tight
  - E) none of these

ANSWER: D