Chapter 14
Determinants of the Money Supply

14.1 The Money Supply Model and 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

Answer: D
Ques Status: Previous Edition

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

Answer: A
Ques Status: Previous Edition

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.

Answer: A
Ques Status: Previous Edition
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) \( M = m + MB \).
   Answer: B
   Ques Status: Previous Edition

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.
   Answer: C
   Ques Status: Previous Edition

6) An assumption in the model of the money supply process is that the desired levels of currency and excess reserves
   A) are given as constants.
   B) grow proportionally with checkable deposits.
   C) grow proportionally with high-powered money.
   D) grow proportionally over time.
   Answer: B
   Ques Status: New

7) 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
   Answer: A
   Ques Status: New
8) 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

Answer: C
Ques Status: New

9) 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
   B) less than one dollar
   C) more than one dollar
   D) exactly twice the amount

Answer: C
Ques Status: New

10) 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) \( MB = \frac{r}{D} + ER + C \).
    D) \( MB = (r \times D) - ER - C \).

Answer: A
Ques Status: Revised

11) 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

Answer: D
Ques Status: Revised
Chapter 14  Determinants of the Money Supply  353

12) 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

Answer: B
Ques Status: Revised

13) 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.

Answer: D
Ques Status: Previous Edition

14) 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

Answer: D
Ques Status: Previous Edition

15) 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) \( M = \frac{1 + c}{r + e + c} \).
   D) \( D = \frac{1}{r + e + c} \).
   E) \( D = \frac{1}{r + e + c} \times MB. \)

Answer: E
Ques Status: Revised
16) 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) \( D = (1 + c) \times M \).
   Answer: C  
   Ques Status: New

17) 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) \( m = \frac{1}{r + e + c} \times MB \).
   Answer: A  
   Ques Status: Revised

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 money supply is
   A) $8000.
   B) $1200.
   C) $1200.8.
   D) $8400.
   Answer: B  
   Ques Status: Previous Edition

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 M1 money multiplier is
   A) 2.5.
   B) 1.67.
   C) 2.0.
   D) 0.601.
   Answer: A  
   Ques Status: Revised
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 currency ratio is

A) 0.25.
B) 0.50.
C) 0.40.
D) 0.05.

Answer: B
*Ques Status: Previous Edition*

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 excess reserves-checkable deposit ratio is

A) 0.001.
B) 0.10.
C) 0.01.
D) 0.05.

Answer: A
*Ques Status: Previous Edition*

22) 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.
C) $80 billion.
D) $80.8 billion.

Answer: B
*Ques Status: Previous Edition*

23) 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.

Answer: C
*Ques Status: Revised*
24) 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.
   Answer: B
   Ques Status: Revised

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 money supply is
   A) $10,000.
   B) $4000.
   C) $1400.
   D) $10,400.
   Answer: C
   Ques Status: Previous Edition

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 M1 money multiplier is
   A) 2.5.
   B) 2.8.
   C) 2.0.
   D) 0.7.
   Answer: B
   Ques Status: Revised

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 currency ratio is
   A) 0.25.
   B) 0.50.
   C) 0.40.
   D) 0.05.
   Answer: C
   Ques Status: Previous Edition
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 excess reserves-checkable deposit ratio is

A) 0.01.
B) 0.10.
C) 0.001.
D) 0.05.

Answer: C

29) 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.

Answer: D

30) 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.

Answer: A

31) 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.

Answer: C
32) 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.

Answer: C

Ques Status: Revised

33) 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.

Answer: B

Ques Status: Previous Edition

34) 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.

Answer: D

Ques Status: Previous Edition

35) 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.

Answer: B

Ques Status: Previous Edition
14.2 Factors That Determine the Money Multiplier

1) Everything else held constant, an increase in the required reserve ratio on checkable deposits will cause
   A) the money supply to rise.
   B) the money supply to remain constant.
   C) the money supply to fall.
   D) checkable deposits to rise.
   Answer: C
   Ques Status: Revised

2) Everything else held constant, a decrease in the required reserve ratio on checkable deposits will mean
   A) a decrease in the money supply.
   B) an increase in the money supply.
   C) a decrease in checkable deposits.
   D) an increase in discount loans.
   Answer: B
   Ques Status: Revised

3) Everything else held constant, an increase in the required reserve ratio on checkable deposits causes the M1 money multiplier to _____ and the money supply to _____.
   A) decrease; increase
   B) increase; increase
   C) decrease; decrease
   D) increase; decrease
   Answer: C
   Ques Status: Revised

4) Everything else held constant, a decrease in the required reserve ratio on checkable deposits causes the M1 money multiplier to _____ and the money supply to _____.
   A) decrease; increase
   B) increase; increase
   C) decrease; decrease
   D) increase; decrease
   Answer: B
   Ques Status: Revised
5) Assuming initially that $r = 10\%$, $c = 40\%$, and $e = 0$, an increase in $r$ to 15% causes the M1 money multiplier to _____, everything else held constant.

   A) increase from 2.55 to 2.8
   B) decrease from 2.8 to 2.55
   C) increase from 1.82 to 2
   D) decrease from 2 to 1.82

   Answer: B
   Ques Status: Revised

6) Assuming initially that $r = 10\%$, $c = 40\%$, and $e = 0$, a decrease in $r$ to 5% causes the M1 money multiplier to _____, everything else held constant.

   A) increase from 2.8 to 3.11
   B) decrease from 3.11 to 2.8
   C) increase from 2 to 2.22
   D) decrease from 2.22 to 2

   Answer: A
   Ques Status: Revised

7) Everything else held constant, an increase in the currency–checkable deposit ratio will mean

   A) an increase in currency in circulation and an increase in the money supply.
   B) an increase in money supply but no change in reserves.
   C) a decrease in the money supply.
   D) an increase in currency in circulation but no change in the money supply.

   Answer: C
   Ques Status: Revised

8) Everything else held constant, a decrease in the currency–checkable deposit ratio will mean

   A) an increase in currency in circulation and an increase in the money supply.
   B) an increase in money supply.
   C) a decrease in the money supply.
   D) an increase in currency in circulation but no change in the money supply.

   Answer: B
   Ques Status: Revised
9) Everything else held constant, an increase in the currency ratio causes the M1 money multiplier to _____ and the money supply to _____.
   A) decrease; increase
   B) increase; decrease
   C) decrease; decrease
   D) increase; increase

   Answer: C
   Ques Status: Revised

10) Everything else held constant, a decrease in the currency ratio causes the M1 money multiplier to _____ and the money supply to _____.
    A) decrease; increase
    B) increase; increase
    C) decrease; decrease
    D) increase; decrease

    Answer: B
    Ques Status: Revised

11) Assuming initially that \( r = 10\% \), \( c = 40\% \), and \( e = 0 \), an increase in \( c \) to 50\% causes the M1 money multiplier to _____, everything else held constant.
    A) increase from 2.5 to 2.8
    B) decrease from 2.8 to 2.5
    C) increase from 2.33 to 2.8
    D) decrease from 2.8 to 2.33

    Answer: B
    Ques Status: Revised

12) Assuming initially that \( r = 10\% \), \( c = 40\% \), and \( e = 0 \), an decrease in \( c \) to 30\% causes the M1 money multiplier to _____, everything else held constant.
    A) increase from 2.8 to 3.25
    B) decrease from 3.25 to 2.8
    C) increase from 2.8 to 3.5
    D) decrease from 3.5 to 2.8

    Answer: A
    Ques Status: Revised
13) Every thing else held constant, a decrease in the excess reserves ratio causes the M1 money multiplier to _____ and the money supply to _____.
   A) decrease; increase
   B) increase; increase
   C) decrease; decrease
   D) increase; decrease
   Answer: B
   Ques Status: Revised

14) Everything else held constant, an increase in the excess reserves ratio causes the M1 money multiplier to _____ and the money supply to _____.
   A) decrease; increase
   B) increase; increase
   C) decrease; decrease
   D) increase; decrease
   Answer: C
   Ques Status: Revised

15) Assuming initially that $r = 15\%$, $c = 40\%$, and $e = 5\%$, a decrease in $e$ to 0% causes the M1 money multiplier to _____, everything else held constant.
   A) increase from 2.33 to 2.55
   B) decrease from 2.55 to 2.33
   C) increase from 1.67 to 1.82
   D) decrease from 1.82 to 1.67
   Answer: A
   Ques Status: Revised

16) Assuming initially that $r = 15\%$, $c = 40\%$, and $e = 5\%$, an increase in $e$ to 10% causes the M1 money multiplier to _____, everything else held constant.
   A) increase from 2.15 to 2.33
   B) decrease from 2.33 to 2.15
   C) increase from 1.54 to 1.67
   D) decrease from 1.67 to 1.54
   Answer: B
   Ques Status: Revised
17) The excess reserves ratio is _____ related to expected deposit outflows, and is _____ related to the market interest rate.
   A) negatively; negatively
   B) negatively; positively
   C) positively; negatively
   D) positively; positively
   Answer: C
   Ques Status: Previous Edition

18) The money supply is _____ related to expected deposit outflows, and is _____ related to the market interest rate.
   A) negatively; negatively
   B) negatively; positively
   C) positively; negatively
   D) positively; positively
   Answer: B
   Ques Status: Previous Edition

19) The money multiplier is
   A) negatively related to high-powered money.
   B) positively related to the excess reserves ratio.
   C) negatively related to the required reserve ratio.
   D) positively related to holdings of excess reserves.
   Answer: C
   Ques Status: Previous Edition

20) What factors determine a bank's holdings of excess reserves? How does a change in each factor affect excess reserves, the money multiplier, and the money supply?
   Answer: An increase in market interest rates reduces excess reserves because banks profit from increased lending. An increase in expected deposit outflows increases excess reserves. An increase in interest rates reduces excess reserves, increasing the multiplier and the money supply. An increase in expected outflows increases excess reserves, reducing the multiplier and the money supply.
   Ques Status: Previous Edition
21) Explain two developments in recent years that have led to the decreasing importance of reserve requirements in determining the money multiplier and the money supply.

Answer: The first is the sweep account. Sweep accounts are two accounts tied together, usually a checking account and a money market fund account. At the end of each business day, balances over a certain amount in the checking account are swept into the MMF account. This has led to lower checking account balances and less required reserves, since reserve requirements are only applied to checkable deposit accounts.

The second is the increased availability of ATMs. Banks have found that they need more cash to supply the increased number of ATMs. Hence, this increased vault cash means that banks are holding more excess reserves. A change in the reserve requirements will not alter banks’ behavior, as long as the change is less than the extra vault cash now held by banks.

14.3 Additional Factors That Determine the Money Supply

1) The Fed does not tightly control the monetary base because it does not completely control
   A) open market purchases.
   B) open market sales.
   C) borrowed reserves.
   D) the discount rate.

Answer: C

2) Subtracting borrowed reserves from the monetary base obtains
   A) reserves.
   B) high-powered money.
   C) the nonborrowed monetary base.
   D) the borrowed monetary base.

Answer: C

3) The relationship between borrowed reserves, the nonborrowed monetary base, and the monetary base is
   A) \( MB = MB_n - BR \).
   B) \( BR = MB_n - MB \).
   C) \( BR = MB - MB_n \).
   D) \( MB = BR - MB_n \).

Answer: C
4) Recognizing the distinction between borrowed reserves and the nonborrowed monetary base, the money supply model is specified as
   A) \( M = m \times (MB_n - BR) \).
   B) \( M = m \times (MB_n + BR) \).
   C) \( M = m + (MB_n - BR) \).
   D) \( M = m - (MB_n + BR) \).
   Answer: B
   *Ques Status: Revised*

5) An increase in the nonborrowed monetary base, everything else held constant, will cause:
   A) the money supply to fall.
   B) the money supply to rise.
   C) no change in the money supply.
   D) demand deposits to fall.
   Answer: B
   *Ques Status: Revised*

6) The money supply is _______ related to the nonborrowed monetary base, and _______ related to the level of borrowed reserves.
   A) positively; negatively
   B) negatively; not
   C) positively; positively
   D) negatively; negatively
   Answer: C
   *Ques Status: Revised*

7) The amount of borrowed reserves is _______ related to the discount rate, and is _______ related to the market interest rate.
   A) negatively; negatively
   B) negatively; positively
   C) positively; negatively
   D) positively; positively
   Answer: B
   *Ques Status: Revised*
8) A ______ in market interest rates relative to the discount rate will cause discount borrowing to ______.
   A) fall; increase
   B) rise; decrease
   C) rise; increase
   D) fall; remain unchanged
Answer: C
Ques Status: Revised

9) Explain the complete formula for the M1 money supply, and explain how changes in required reserves, excess reserves, the currency ratio, the nonborrowed base, and borrowed reserves affect the money supply.
Answer: The formula is $M = \frac{1 + c}{r + c + e} \times (MB_n + BR)$. The formula indicates that the money supply is the product of the multiplier times the base. Increases in any of the multiplier components, required reserves, r; excess reserves, e; or the currency ratio, c; reduce the multiplier and the money supply. Increases in the nonborrowed base and borrowed reserves both increase the base and the money supply.
Ques Status: Revised

14.4 Overview of the Money Supply Process

1) In the model of the money supply process, the Federal Reserve's role in influencing the money supply is represented by
   A) both the required reserve ratio and the market interest rate.
   B) the required reserve ratio, nonborrowed reserves, borrowed reserves, and the market interest rate.
   C) only borrowed reserves.
   D) only nonborrowed reserves.
Answer: B
Ques Status: New

2) In the model of the money supply process, the depositor's role in influencing the money supply is represented by
   A) only the currency ratio.
   B) both the currency ratio and excess reserve ratio.
   C) the currency ratio, excess reserve ratio, and the market interest rate.
   D) only the market interest rate.
Answer: C
Ques Status: New
3) In the model of the money supply process, the bank’s role in influencing the money supply process is represented by
   A) only the excess reserve ratio.
   B) both the excess reserve ratio and the market interest rate.
   C) only the currency ratio.
   D) only borrowed reserves.

   Answer: B
   Ques Status: New

4) In the model of the money supply process, borrowers from banks’ role in influencing the money supply is represented by
   A) only market interest rates.
   B) both the excess reserve ratio and the market interest rate.
   C) only the currency ratio.
   D) both borrowed reserves and the market interest rate.

   Answer: A
   Ques Status: New

5) All else constant, a rise in market interest rates leads to a
   A) rise in excess reserves and a rise in the money supply.
   B) rise in borrowed reserves and a rise in the money supply.
   C) fall in excess reserves and a fall in the money supply.
   D) fall in borrowed reserves and a rise in the money supply.

   Answer: B
   Ques Status: Revised

6) Over the long run the primary determinant of movements in the money supply is the
   A) currency ratio.
   B) excess reserves ratio.
   C) required reserve ratio.
   D) nonborrowed base.

   Answer: D
   Ques Status: Revised
7) Over short time periods, changes in the _______ can have a major impact on the money supply.
   A) currency ratio
   B) excess reserve ratio
   C) required reserve ratio
   D) borrowed base

   Answer: A
   Ques Status: New

8) During the bank panics of the Great Depression the currency ratio
   A) increased sharply.
   B) decreased sharply.
   C) increased slightly.
   D) decreased slightly.

   Answer: A
   Ques Status: Revised

9) During the bank panics of the Great Depression the excess reserve ratio
   A) increased sharply.
   B) decreased sharply.
   C) increased slightly.
   D) decreased slightly.

   Answer: A
   Ques Status: New

10) In the early 1930s, the currency ratio rose, as did the level of excess reserves. Money supply analysis predicts that, everything else held constant, the money supply should have
   A) risen.
   B) fallen.
   C) remain unchanged.
   D) either risen, fallen, or remain unchanged

   Answer: B
   Ques Status: Revised
11) The monetary base increased by 20% during the contraction of 1929–1933, but the money supply fell by 25%. Explain why this occurred. How can the money supply fall when the base increases?

Answer: The banking crisis caused the public to fear for the safety of their deposits, increasing both the currency ratio and bank holdings of excess reserves in anticipation of deposit outflows. Both of these changes reduce the money multiplier and the money supply. In this case, the fall in the multiplier due to increases of currency and excess reserves more than offset the increase in the base, causing the money supply to fall.

Ques Status: Previous Edition

14.5 Appendix: The M2 Money Multiplier

1) The equation that represents M2 in the model of the money supply process is

A) \( M_2 = C + D \)
B) \( M_2 = C + D + T - MMF \)
C) \( M_2 = C + D - T + MMF \)
D) \( M_2 = C + D + T + MMF \)

Answer: D

Ques Status: New

2) In the model of the money supply process for M2, the relationship between checkable deposits and the M2 money supply is represented by

A) \( D = \frac{1}{1 + c + t + mm} \times M_2 \)
B) \( D = (1 + c + t + mm) \times M_2 \)
C) \( M_2 = \frac{1}{r + c + t + mm} \times D \)
D) \( M_2 = \frac{r + c + t + mm}{D} \)

Answer: A

Ques Status: New

3) The M2 money supply is represented by

A) \( M_2 = \frac{1 + c + t + mm}{r + e + c} \times MB \)
B) \( M_2 = \frac{1 + c + t + mm}{r + e + c} \times \frac{1}{MB} \)
C) \( MB = \frac{1 + c + t + mm}{r + e + c} \times M_2 \)
D) \( MB = \frac{r + e + c}{1 + c + t + mm} \times \frac{1}{M_2} \)

Answer: A

Ques Status: New
4) The M2 money multiplier is
   A) negatively related to high-powered money.
   B) positively related to the time deposit ratio.
   C) positively related to the required reserve ratio.
   D) positively related to the excess reserves ratio.

Answer: B

Ques Status: Previous Edition

5) Everything else held constant, an increase in the currency ratio will mean _______ in the M2 money multiplier and _______ in the M2 money supply.
   A) an increase; an increase
   B) an increase; a decrease
   C) a decrease; an increase
   D) a decrease; a decrease

Answer: D

Ques Status: Revised

6) Everything else held constant, a decrease in the currency ratio will mean _______ in the M1 money multiplier and _______ in the M2 money multiplier.
   A) an increase; an increase
   B) an increase; a decrease
   C) a decrease; an increase
   D) a decrease; a decrease

Answer: A

Ques Status: Revised

7) Everything else held constant, an increase in the required reserve ratio will mean _______ in the M2 money multiplier and _______ in the M2 money supply.
   A) an increase; an increase
   B) an increase; a decrease
   C) a decrease; an increase
   D) a decrease; a decrease

Answer: D

Ques Status: Revised
8) Everything else held constant, an increase in the required reserve ratio will result in ______ in M1 and ______ in M2.
   A) an increase; an increase
   B) an increase; a decrease
   C) a decrease; an increase
   D) a decrease; a decrease

   Answer: D
   *Ques Status: Revised*

9) Everything else held constant, an increase in the time deposit ratio will mean ______ in the M2 money multiplier and ______ in the M2 money supply.
   A) an increase; an increase
   B) an increase; a decrease
   C) a decrease; an increase
   D) a decrease; a decrease

   Answer: A
   *Ques Status: Revised*

10) Everything else held constant, an increase in the time deposit ratio will result in ______ in the M1 money multiplier and ______ in the M2 money multiplier.
    A) an increase; an increase
    B) no change; an increase
    C) a decrease; a decrease
    D) no change; a decrease

    Answer: B
    *Ques Status: Revised*

11) Everything else held constant, an increase in the money market fund ratio will mean ______ in the M2 money multiplier and ______ in the M2 money supply.
    A) an increase; an increase
    B) an increase; a decrease
    C) a decrease; an increase
    D) a decrease; a decrease

    Answer: A
    *Ques Status: Revised*
12) Everything else held constant, an increase in the money market fund ratio will result in _______ in the M1 money multiplier and _______ in the M2 money multiplier.

A) an increase; an increase
B) no change; an increase
C) a decrease; a decrease
D) no change; a decrease

Answer: B
Ques Status: Revised

13) Everything else held constant, an increase in the excess reserve ratio will mean _______ in the M2 money multiplier and _______ in the M2 money supply.

A) an increase; an increase
B) an increase; a decrease
C) a decrease; an increase
D) a decrease; a decrease

Answer: D
Ques Status: New

14) Everything else held constant, an increase in the excess reserve ratio will mean _______ in the M1 money multiplier and _______ in the M2 money multiplier.

A) an increase; an increase
B) no change; an increase
C) a decrease; a decrease
D) no change; a decrease

Answer: C
Ques Status: New

14.6 Web Appendix: Explaining the Behavior of the Currency Ratio

1) Factors causing an increase in currency holdings include

A) an increase in the interest rates paid on checkable deposits.
B) an increase in the cost of acquiring currency.
C) a decrease in bank panics.
D) an increase in illegal activity.

Answer: D
Ques Status: Revised
2) Part of the increase in currency holdings in the 1960s and 1970s can be attributed to
   A) increases in income tax rates.
   B) the switch from progressive to proportional income taxes.
   C) the adoption of regressive taxes.
   D) bracket creep due to inflation and progressive income taxes.
   Answer: D
   Ques Status: Revised

3) Everything else held constant, an increase in wealth will cause the holdings of checkable deposits to the holdings of currency to ________ and the currency ratio will ________.
   A) increase; increase
   B) increase; decrease
   C) decrease; increase
   D) decrease; decrease
   Answer: B
   Ques Status: New

4) Everything else held constant, an increase in the interest rate paid on checkable deposits will cause ________ in the amount of checkable deposits held relative to currency holdings and ________ in the currency ratio.
   A) an increase; an increase
   B) an increase; a decrease
   C) a decrease; an increase
   D) a decrease; a decrease
   Answer: B
   Ques Status: New

5) The increase in the availability of ATM’s has caused the cost of acquiring currency to ________, which will cause the currency ratio to ________, everything else held constant.
   A) increase; increase
   B) increase; decrease
   C) decrease; increase
   D) decrease; decrease
   Answer: C
   Ques Status: New
6) The steepest increase in the currency ratio since 1892 occurred during
   A) World War II.
   B) the Great Depression.
   C) the interwar years.
   D) the past twenty years.

   Answer: B
   Ques Status: Revised

7) The factor accounting for the steepest rise in the currency ratio since 1892 is
   A) taxes.
   B) bank panics.
   C) illegal activity.
   D) an increase in wealth.

   Answer: B
   Ques Status: Revised

8) The increase in the currency ratio during World War II was due to
   A) bank panics.
   B) a drop in the rate of interest paid on checking deposits.
   C) the spread of ATMs.
   D) high taxes and illegal activities.

   Answer: D
   Ques Status: Revised