Chapter 23
Transmission Mechanisms of Monetary Policy: The Evidence

23.1 Framework for Evaluating Empirical Evidence

1) Evidence that examines whether one variable has an effect on another by simply looking directly at the relationship between the two variables is
   A) reduced-form evidence.
   B) organizational-model evidence.
   C) direct-model evidence.
   D) structural-model evidence.

Answer: A
Ques Status: Previous Edition

2) Evidence that is based on a variable having its effect on another variable through channels rather than a direct effect is known as
   A) indirect-model evidence.
   B) organizational-model evidence.
   C) reduced-form evidence.
   D) structural-model evidence.

Answer: D
Ques Status: Previous Edition

3) On the evening news you hear of a scientific study that directly links premature births to cigarette smoking. This is an example of
   A) direct-model evidence.
   B) informed voter-model evidence.
   C) structural-model evidence.
   D) reduced-form evidence.

Answer: D
Ques Status: Previous Edition
4) The monetarist–Keynesian debate on the importance of monetary policy is unresolved because monetarists and Keynesians focus on two different types of evidence that generate conflicting conclusions. Monetarists tend to focus on

A) structural–model evidence, while Keynesians focus on reduced–form evidence.
B) reduced–form evidence, while Keynesians focus on structural–model evidence.
C) reduced–form evidence, while Keynesians focus on direct–model evidence.
D) structural–model evidence, while Keynesians focus on direct–model evidence.

Answer: B

Ques Status: Previous Edition

5) The channels through which monetary policy affects economic activity are called the ______ of monetary policy.

A) transmission mechanisms
B) flow mechanisms
C) distribution mechanisms
D) allocational mechanisms

Answer: A

Ques Status: Revised

6) A model that is composed of many equations that show the channels through which monetary and fiscal policy affect aggregate output and spending is called a

A) reduced–form model.
B) median–voter model.
C) informed median–voter model.
D) structural model.

Answer: D

Ques Status: Previous Edition

7) Monetarists directly study the link between money and economic activity using

A) structural models.
B) reduced–form models.
C) scientific models.
D) experimental models.

Answer: B

Ques Status: Revised
8) The monetarist reduced-form evidence does not specify the working of the economy and thus is considered to be a
   A) scientific model.
   B) open model.
   C) black box.
   D) black hole.
   Answer: C

9) Which of the following is not an advantage of a correctly specified structural model?
   A) Structural models may help us to more accurately predict the effect that monetary policy has on economic activity.
   B) A structural model provides more pieces of evidence about monetary policy’s effect on economic activity.
   C) Structural models may allow economists to more accurately predict the impact institutional changes have on the link between monetary policy and income.
   D) A structural model imposes no restrictions on the way monetary policy affects the economy.
   Answer: D

10) Predicting the impact of institutional change on the effectiveness of monetary policy is best done with a
    A) structural model.
    B) reduced-form model.
    C) black-box model.
    D) scientific model.
    Answer: A

11) The monetarists complained that early Keynesian structural models tended to ignore the impact of monetary policy changes on
    A) interest rates.
    B) investment spending.
    C) consumption spending.
    D) capital goods spending.
    Answer: C
12) Monetarists contend that the channels of monetary influence in Keynesian structural models are too ______ defined, ______ the importance of monetary policy.

A) broadly; exaggerating
B) broadly; understating
C) narrowly; understating
D) narrowly; exaggerating

Answer: C

Ques Status: Previous Edition

13) Monetarists claim that ______ models ignore important transmission mechanisms and therefore ______ the importance of the effects of monetary policy on the economy.

A) structural; overstate
B) reduced-form; overstate
C) reduced-form; understate
D) structural; understate

Answer: D

Ques Status: Revised

14) Monetarists assert that monetary policy may affect aggregate demand through

A) only an interest rate channel.
B) only an exchange rate channel.
C) only two channels: interest rates and exchange rates.
D) many channels.

Answer: D

Ques Status: Previous Edition

15) If the particular channels through which changes in the money supply affect aggregate income are diverse and continually changing, the best evidence of monetary policy’s effect is likely to come from

A) reduced-form models.
B) structural models.
C) median-voter models.
D) indirect models.

Answer: A

Ques Status: Previous Edition
16) Monetarists' preference for reduced-form models is based on their belief that
   A) reverse causation is a problem.
   B) structural models may understate money’s effect on economic activity.
   C) money supply changes are always endogenous.
   D) monetary policy affects only investment spending.

   Answer: B

17) When Keynesians argue that "correlation does not necessarily imply causation," they are probably criticizing
   A) structural-model evidence.
   B) reduced-form evidence.
   C) indirect-model evidence.
   D) black-box evidence.

   Answer: B

18) Reverse causation between money and aggregate output is likely to be a problem when a central bank targets
   A) a monetary aggregate.
   B) an interest rate.
   C) the exchange rate.
   D) the inflation rate.

   Answer: B

19) With regard to aggregate demand, early Keynesians tended to believe that
   A) monetary policy mattered most.
   B) monetary policy was all that mattered.
   C) monetary policy mattered.
   D) monetary policy did not matter.

   Answer: D
20) The ______ held the view that monetary policy does not matter at all for movements in aggregate output.
   A) new Keynesian economists
   B) early Keynesians
   C) early monetarists
   D) early classical economists
   Answer: B
   *Ques Status: Previous Edition*

21) Early Keynesians felt that ______ policy was ______, so they stressed the importance of ______ policy.
   A) fiscal; ineffective; monetary
   B) monetary; ineffective; fiscal
   C) monetary; potent; monetary
   D) fiscal; too potent; monetary
   Answer: B
   *Ques Status: Revised*

22) Early Keynesians believed that ______ interest rates during the Great Depression indicated that monetary policy had been ______.
   A) high; contractionary
   B) high; expansionary
   C) low; contractionary
   D) low; expansionary
   Answer: D
   *Ques Status: Previous Edition*

23) Early Keynesians viewed monetary policy as influencing aggregate demand solely through its impact on ______ interest rates, which, in turn, affect ______ spending.
   A) nominal; consumer
   B) nominal; investment
   C) real; consumer
   D) real; investment
   Answer: B
   *Ques Status: Previous Edition*
24) Early Keynesians believed that _______ interest rates during the Great Depression indicated that monetary policy was _______.

A) high; easy  
B) high; tight  
C) low; easy  
D) low; tight  

Answer: C

25) Early Keynesians believed that low _______ during the Great Depression indicated that _______ policy was easy.

A) money growth; fiscal  
B) money growth; monetary  
C) interest rates; fiscal  
D) interest rates; monetary  

Answer: D

26) Early Keynesians concluded that changes in monetary policy had no impact on aggregate output because early empirical studies found no linkage between movements in _______ and _______.

A) nominal interest rates; investment spending  
B) real interest rates; investment spending  
C) money supply; aggregate output  
D) investment spending; aggregate output  

Answer: A

27) In response to the early Keynesians, monetarists contended that

A) monetary policy during the Great Depression was not easy.  
B) bank failures during the Great Depression were not the cause of the decline in the money supply.  
C) evidence from the Great Depression demonstrated the ineffectiveness of monetary policy.  
D) there is a weak link between interest rates and investment spending.

Answer: A
28) Milton Friedman and Anna Schwartz showed that monetary policy during the Great Depression had
A) been quite inflationary.
B) never been more contractionary.
C) been more expansionary than in the 1920s.
D) been essentially neutral.
Answer: B

29) By the standard of low-grade bonds, interest rates were _______ and monetary policy was _______ during the Great Depression.
A) low; tight
B) low; easy
C) high; tight
D) high; easy
Answer: C

30) During the Great Depression, real interest rates
A) rose to unprecedentedly high levels.
B) rose only slightly above the long-run trend.
C) fell to unprecedentedly low levels.
D) fell only slightly below the long-run trend.
Answer: A

31) Movements of _______ interest rates indicate that, contrary to the early Keynesians’ beliefs, monetary policy was _______ during the Great Depression.
A) nominal; tight
B) nominal; easy
C) real; tight
D) real; easy
Answer: C
32) Movements of real interest rates indicate that, contrary to the early Keynesians' beliefs, ________ policy was ________ during the Great Depression.

A) fiscal; tight
B) fiscal; easy
C) monetary; tight
D) monetary; easy

Answer: C

33) Periods of price deflation, such as the Great Depression, are characterized by

A) low nominal rates but high real rates of interest.
B) low nominal and real interest rates.
C) real rates of interest lower than the nominal rate of interest.
D) high nominal and real rates of interest.

Answer: A

34) Monetarists contend that

A) monetary policy affects aggregate demand solely through investment.
B) monetary policy may affect aggregate demand through many channels.
C) a weak link between nominal interest rates and investment spending implies monetary policy ineffectiveness.
D) monetary policy affects aggregate demand solely through consumption.

Answer: B

35) In the early 1960s, monetarists used reduced-form timing, statistical, and historical evidence to show that

A) fiscal policy had a strong impact on economic activity.
B) monetary policy had a strong impact on economic activity.
C) monetary policy had a weak impact on economic activity.
D) neither monetary nor fiscal policy had a strong impact on economic activity.

Answer: B
36) In a study published in 1963, Milton Friedman and Anna Schwartz found that in every business cycle they studied over nearly a hundred–year period, the growth rate of the ________ decreased before ________ decreased.

A) money supply; interest rates  
B) money supply; output  
C) budget deficit; interest rates  
D) budget deficit; output  

Answer: B  
*Ques Status: Previous Edition*

37) Friedman and Schwartz found that the rate of money growth fell prior to business cycle downturns in

A) about three out of every four instances.  
B) four out of every five instances.  
C) about two out of every three instances.  
D) every instance studied.

Answer: D  
*Ques Status: Previous Edition*

38) In a study published in 1963, Milton Friedman and Anna Schwartz found that in every business cycle they studied over nearly a hundred–year period,

A) the growth rate of the money supply decreased before output decreased.  
B) interest rates decreased before output decreased.  
C) the growth rate of federal government spending decreased before output decreased.  
D) the growth rate of state and local government spending decreased before output decreased.

Answer: A  
*Ques Status: Previous Edition*

39) Timing evidence is valid only if it is known that the first event is

A) endogenous.  
B) exogenous.  
C) a leading indicator of the second event.  
D) a lagging indicator of the second event.

Answer: B  
*Ques Status: Revised*
40) Because ______ evidence is of a ______ nature, there is always the possibility of reverse causation, in which output growth causes money growth.

A) historical; structural  
B) statistical; structural  
C) timing; structural  
D) timing; reduced-form  

Answer: D

41) If the movements of the level of the money supply and real output are perfectly coordinated the growth rate of money

A) will lead the level of real output.  
B) will move in synchronization with the level of real output.  
C) will lag the level of real output.  
D) can either lead or lag the level of real output.  

Answer: A

42) The monetarist statistical evidence examines the correlations between both ______ and ______ with ______.

A) money; aggregate spending; the unemployment rate  
B) money; autonomous expenditures; the unemployment rate  
C) money; consumption spending; aggregate spending  
D) money; autonomous expenditures; aggregate spending  

Answer: D

43) A criticism of the monetarist autonomous spending variable is that

A) some types of autonomous spending do not affect aggregate demand.  
B) some types of autonomous spending affect aggregate demand before the spending occurs. Some types of autonomous spending affect aggregate demand when they occur.  
C) some types of autonomous spending affect aggregate demand only long after they occur.  
D) Keynesians do not think that autonomous spending affects aggregate demand.  

Answer: B
44) One of the best examples of an episode in which a change in monetary policy appears to have been an exogenous event is

A) the increase in reserve requirements in 1936–1937.
B) the decrease in reserve requirements in 1936–1937.
C) the decrease in reserve requirements in 1818–1819.
D) the increase in reserve requirements in 1818–1819.

Answer: A

Ques Status: Revised

45) The monetarist position on the importance of monetary policy is probably best supported by

A) timing evidence.
B) statistical evidence.
C) historical evidence.
D) structural evidence.

Answer: C

Ques Status: Previous Edition

46) The monetarist ________ evidence in which declines in money growth are followed by recessions provides the strongest support for their position that monetary policy matters.

A) statistical
B) historical
C) timing
D) structural

Answer: B

Ques Status: Revised

47) As a result of recent empirical research, there has been a convergence of Keynesian and monetarist opinion to the view that

A) money is all that matters.
B) money does matter.
C) money does not matter.
D) fiscal policy is all that matters.

Answer: B

Ques Status: Previous Edition
48) Real business cycle theorists are critical of monetarist reduced-form evidence because they believe

A) money is the most important cause of changes in aggregate demand.
B) there is reverse causation from the business cycle to money.
C) there is reverse causation from money to the business cycle.
D) business cycles do not exist.

Answer: B

49) Real business cycle theory states that the most important cause of business cycles is

A) shocks to the money supply.
B) interest rate shocks.
C) Federal Reserve policy decisions.
D) shocks to tastes and technology.

Answer: D

23.2 Transmission Mechanisms of Monetary Policy

1) Economic theory suggests that ________ interest rates are _____ important than ________ interest rates in explaining investment behavior.

A) nominal; more; real
B) real; less; nominal
C) real; more; nominal
D) market; more; real

Answer: C

2) According to the traditional interest-rate channel, expansionary monetary policy lowers the real interest rate, thereby raising expenditure on

A) business fixed investment.
B) government expenditure.
C) consumer nondurables.
D) net exports

Answer: A
3) The monetary transmission mechanism that links monetary policy to GDP through real interest rates and investment spending is called the
   A) traditional interest-rate channel.
   B) Tobins’ q theory.
   C) wealth effects.
   D) cash flow channel.

Answer: A
Ques Status: New

4) If the aggregate price level adjusts slowly over time, then an expansionary monetary policy lowers
   A) only the short-term nominal interest rate.
   B) only the short-term real interest rate.
   C) both the short-term nominal and real interest rates.
   D) the short-term nominal, the short-term real, and the long-term real interest rates.

Answer: D
Ques Status: Previous Edition

5) If monetary policy can influence ________ prices and conditions in ________ markets, then it can affect spending through channels other than the traditional interest-rate channel.
   A) asset; labor
   B) asset; credit
   C) commodity; labor
   D) commodity; credit

Answer: B
Ques Status: Previous Edition

6) An expansionary monetary policy lowers the real interest rate, causing the domestic currency to ________, thereby ________ net exports.
   A) appreciate; raising
   B) appreciate; lowering
   C) depreciate; raising
   D) depreciate; lowering

Answer: C
Ques Status: Previous Edition
7) An expansionary monetary policy increases net exports by
   A) lowering nominal interest rates and decreasing the value of the dollar.
   B) lowering real interest rates and decreasing the value of the dollar.
   C) raising nominal interest rates and increasing the value of the dollar.
   D) raising real interest rates and increasing the value of the dollar.

   Answer: B
   Ques Status: Revised

8) A contractionary monetary policy raises the real interest rate, causing the domestic currency to ________, thereby ________ net exports.
   A) appreciate; raising
   B) appreciate; lowering
   C) depreciate; raising
   D) depreciate; lowering

   Answer: B
   Ques Status: Previous Edition

9) A contractionary monetary policy decreases net exports by
   A) lowering real interest rates and decreasing the value of the dollar.
   B) lowering real interest rates and increasing the value of the dollar.
   C) raising nominal interest rates and increasing the value of the dollar.
   D) raising real interest rates and increasing the value of the dollar.

   Answer: D
   Ques Status: Revised

10) Tobin's q is defined as
    A) market value of firms times replacement cost of capital.
    B) market value of firms minus replacement cost of capital.
    C) market value of firms plus replacement cost of capital.
    D) market value of firms divided by replacement cost of capital.

    Answer: D
    Ques Status: Previous Edition
11) Tobin’s \( q \) is defined as

A) the market value of firms divided by the replacement cost of capital.
B) the market value of firms less the replacement cost of capital.
C) the replacement cost of capital divided by the new cost of capital.
D) the replacement cost of capital divided by the market value of firms.

Answer: A  
*Ques Status: Previous Edition*

12) Tobin’s \( q \) theory suggests that monetary policy may affect investment spending through its impact on

A) stock prices.
B) interest rates.
C) bond prices.
D) cash flow.

Answer: A  
*Ques Status: Revised*

13) In the late 1990s, the stock market bubble _______ the value of Tobin’s \( q \), and caused _______ in business equipment.

A) increased; underinvestment
B) increased; overinvestment
C) decreased; underinvestment
D) decreased; overinvestment

Answer: B  
*Ques Status: Revised*

14) The deflation of the stock market bubble of the late 1990s likely resulted in

A) a collapse of business investment spending.
B) a collapse of federal government spending.
C) a collapse of housing investment.
D) a surge in net exports.

Answer: A  
*Ques Status: Revised*
15) During the Great Depression, Tobin's q
   A) rose dramatically, as did real interest rates.
   B) fell to unprecedentedly low levels.
   C) stayed fairly constant, in contrast to most other economic measures.
   D) rose only slightly, in spite of Hoover's attempts to prop it up.

Answer: B

Ques Status: Previous Edition

16) According to Tobin's q theory, _______ policy can affect _______ spending through its effect on the prices of common stock.
   A) fiscal; consumption
   B) fiscal; investment
   C) monetary; consumption
   D) monetary; investment

Answer: D

Ques Status: Previous Edition

17) According to Tobin's q theory, when q is _______, firms will not purchase new investment goods because the market value of firms is _______ relative to the cost of capital.
   A) low; low
   B) low; high
   C) high; low
   D) high; high

Answer: A

Ques Status: Previous Edition

18) According to Tobin's q theory, if q is _______, new plant and equipment capital is _______ relative to the market value of business firms, so companies can buy a lot of new investment goods with only a _______ issue of stock.
   A) high; dear; large
   B) high; cheap; large
   C) high; cheap; small
   D) low; cheap; large
   E) low; cheap; small

Answer: C

Ques Status: Previous Edition
19) According to Tobin’s q theory, when equity prices are low the market price of existing capital is ______ relative to new capital, so expenditure on fixed investment is ______.
   A) cheap; low
   B) dear; low
   C) cheap; high
   D) dear; high
   Answer: A
   Ques Status: Revised

20) According to Tobin’s q theory, when equity prices are high the market price of existing capital is ______ relative to new capital, so expenditure on fixed investment is ______.
   A) cheap; low
   B) dear; low
   C) cheap; high
   D) dear; high
   Answer: D
   Ques Status: Revised

21) Franco Modigliani has found that an expansionary monetary policy can cause stock market prices to ______ and consumption to ______.
   A) increase; increase
   B) increase; decrease
   C) decrease; decrease
   D) decrease; increase
   Answer: A
   Ques Status: Previous Edition

22) The sharp drop in housing purchases in 1966 and 1969, when market interest rates rose above Regulation Q ceilings, is consistent with the
   A) bank lending channel.
   B) traditional interest-rate channel.
   C) cash flow channel.
   D) balance sheet channel.
   Answer: A
   Ques Status: Revised
23) A rise in stock prices _______ the net worth of firms and so leads to _______ investment spending because of the reduction in moral hazard.
   A) raises; higher
   B) raises; lower
   C) reduces; higher
   D) reduces; lower
Answer: A
Qed Status: Previous Edition

24) Because of the presence of asymmetric information problems in credit markets, an expansionary monetary policy causes a _______ in net worth, which _______ the adverse selection problem, thereby _______ increased lending to finance investment spending.
   A) decline; increases; encouraging
   B) rise; increases; discouraging
   C) rise; reduces; encouraging
   D) decline; reduces; discouraging
Answer: C
Qed Status: Revised

25) Due to asymmetric information in credit markets, monetary policy may affect economic activity through the balance sheet channel, where an increase in the money supply
   A) raises stock prices, lowering the cost of new capital relative to firms’ market value, thus increasing investment spending.
   B) raises firms’ net worth, decreasing adverse selection and moral hazard problems, thus increasing banks’ willingness to lend to finance investment spending.
   C) raises the level of bank reserves, deposits, and bank loans, thereby raising spending by those individuals who do not have access to credit markets.
   D) lowers the value of the dollar, increasing net exports and aggregate demand.
Answer: B
Qed Status: Revised

26) An expansionary monetary policy raises firms’ cash flows by
   A) lowering real interest rates.
   B) lowering nominal interest rates.
   C) raising real interest rates.
   D) raising nominal interest rates.
Answer: B
Qed Status: Revised
27) If a contractionary monetary policy lowers the price level by more than expected, it raises the real value of consumer debt. This reduces consumer expenditure through

A) the bank lending channel.
B) Tobin’s q.
C) the traditional interest-rate channel.
D) the household liquidity effect.

Answer: D
Ques Status: Revised

28) An expansionary monetary policy may cause asset prices to rise, thereby reducing the likelihood of financial distress and causing consumer durable and housing expenditures to rise. This monetary transmission mechanism is referred to as

A) the household liquidity effect.
B) the wealth effect.
C) Tobin’s q theory.
D) the cash flow effect.

Answer: A
Ques Status: Previous Edition

29) According to the household liquidity effect, an expansionary monetary policy causes a ________ in the value of households' financial assets, causing consumer durable expenditure to ________.

A) decline; rise
B) rise; rise
C) rise; fall
D) decline; fall

Answer: B
Ques Status: Previous Edition

30) According to the household liquidity effect, higher stock prices lead to increased consumption expenditures because consumers

A) feel more secure about their financial position.
B) want to sell stocks and spend the proceeds before stock prices fall.
C) believe that their wages will increase due to increased profitability of firms.
D) can now afford more expensive imports.

Answer: A
Ques Status: Revised
31) Corporate scandals involving Enron and Arthur Andersen reduced investment and aggregate spending because these scandals
   A) forced the Fed to raise interest rates.
   B) caused appreciation of the dollar.
   C) worsened adverse selection and moral hazard.
   D) caused bank failures.
   Answer: C
   Ques Status: Revised

32) In a period of deflation, when there is a declining price level, _______ nominal interest rates do not necessarily indicate that the cost of borrowing is ____ or that monetary policy is easy.
   A) low; low
   B) low; high
   C) high; low
   D) high; high
   Answer: A
   Ques Status: Previous Edition

33) In a period of deflation, when there is a declining price level, low nominal interest rates do not necessarily indicate that the cost of borrowing is ____ or that monetary policy is ______.
   A) low; tight
   B) low; easy
   C) high; tight
   D) high; easy
   Answer: B
   Ques Status: Previous Edition

34) Explain the traditional interest-rate channel for expansionary monetary policy. Explain how a tight monetary policy affects the economy through this channel.
   Answer: In the traditional channel, a monetary expansion reduces real interest rates, lowering the cost of capital and increasing investment spending. The increase in investment increases aggregate demand. A monetary contraction has the opposite effect, raising real interest rates, lowering investment and aggregate spending.
   Ques Status: Previous Edition

35) Explain how expansionary and contractionary monetary policies affect aggregate demand through the exchange rate channel.
   Answer: An expansionary monetary policy reduces real interest rates, causing depreciation of the domestic currency. This depreciation increases net exports and aggregate spending. A monetary contraction increases real interest rates, causing appreciation of the domestic currency, reducing net exports and aggregate spending.
   Ques Status: Previous Edition
36) Discuss three channels by which monetary policy affects stock prices and aggregate spending.

Answer: The answer should include three of the following:

In Tobin’s q theory, a monetary expansion increases stock prices, increasing the value of the firm relative to the cost of new capital. This stimulates investment in new capital goods, which in turn increases aggregate spending. A monetary expansion increases stock prices, increasing wealth and stimulating consumption and aggregate spending. Expansionary monetary policy increases equity prices. This improves firms’ balance sheets, reducing adverse selection and moral hazard and increasing lending for investment, which increases aggregate spending. In the household liquidity effect, the increase in equity prices due to a monetary expansion improves consumer balance sheets, reducing the probability of financial distress, and increasing consumer spending on durable goods and housing.

Ques Status: Previous Edition

23.3 Lessons for Monetary Policy

1) Analysis of the transmission mechanisms of monetary policy provides four basic lessons for a central bank’s conduct of monetary policy. These lessons include:

A) Rising interest rates indicate a tightening of monetary policy, whereas falling interest rates indicate an easing of monetary policy.

B) Monetary policy can be highly effective in reviving a weak economy even if short-term interest rates are already near zero.

C) Avoiding fluctuations in the level of unemployment is an important objective of monetary policy, thus providing a rationale for interest-rate stability as the primary long-run goal for monetary policy.

D) Other asset prices beside those on short-term debt instruments do not contain important information about the stance of monetary policy because they are not important elements in various monetary policy transmission mechanisms.

Answer: B

Ques Status: Revised
2) Analysis of the transmission mechanisms of monetary policy provides four basic lessons for a central bank’s conduct of monetary policy. Which of the following is not one of these lessons?

A) Rising interest rates indicate a tightening of monetary policy, whereas falling interest rates indicate an easing of monetary policy.

B) Monetary policy can be highly effective in reviving a weak economy even if short-term interest rates are already near zero.

C) Avoiding unanticipated fluctuations in the price level is an important objective of monetary policy, thus providing a rationale for price stability as the primary long-run goal for monetary policy.

D) Other asset prices beside those on short-term debt instruments do not contain important information about the stance of monetary policy because they are important elements in various monetary policy transmission mechanisms.

Answer: A
Ques Status: Revised

3) In the late 1990s and early 2000s, the Japanese economy has experienced

A) easy monetary policy as indicated by falling nominal interest rates.

B) easy monetary policy as indicated by short-term interest rates near zero.

C) tight monetary policy as indicated by falling asset prices.

D) tight monetary policy as indicated by short-term interest rates near zero.

Answer: C
Ques Status: Revised

4) Recent Japanese experience has been characterized by tight monetary policy, as indicated by

A) falling interest rates.

B) short-term interest rates near zero.

C) falling asset prices.

D) low real interest rates.

Answer: C
Ques Status: Revised