

1. Suppose that a hypothetical bank has a 20 percent capital requirement. The hypothetical bank has \$500 in loans, \$500 in deposits, \$400 in investments, \$100 in cash and reserves, and \$250 in debt. In dollars, what is the bank's capital requirement?

a. \$250

b. \$100

c. \$200

d. \$20

Question 2

Suppose a hypothetical bank had a 5 percent reserve requirement. Consider a bank with loans of \$500, equity of \$100, deposits of \$500, investments of \$400, and short-term debt of \$200. What is the amount of the bank's reserve requirement?

a. \$25

b. \$500

c. \$0

d. \$50

Question 3

A country experiencing a hyperinflation is likely to:

- a. have a government surplus.
- b. have another hyperinflation after the current problem is solved.
- c. have a low nominal interest rate.
- d. have a low inflation tax.

Question 4

Suppose that a hypothetical bank had loans of \$500, deposits of \$500, investments of \$400, cash and reserves of \$50, short-term debt of \$200, and long-term debt of \$150. The bank will become insolvent if the value of investments drops below:

a. \$200

b. \$300

c. \$150

d. \$250

Question 5

Suppose oil prices increase. Which of the following is true?

- a. Equilibrium wages are lower.
- b. Employment is lower.
- c. Both of these choices are correct.
- d. None of these choices are correct.

Question 6

A country has a total civilian population (over age 16) of 300 million. Of this population, 225 million are employed, 25 million are unemployed, and the remainder of the population is not in the labor force. Then, the unemployment rate is

- a. .111.
- b. .100.
- c. .083.
- d. .150.

Question 7

Suppose that nominal GDP is \$5,000 and the velocity of money is equal to 5. According to the quantity theory of money, what is the amount of money in circulation?

- a. \$1,000
- b. \$100
- c. \$5,000
- d. \$500

Question 8

The wholesale price of one pound of coffee was 8.25 cents in 1900 and \$1.50 in 2015. If the CPI was 3.43 for 1900 and 100 for 2015, coffee was

- a. more expensive in 2015 compared to 1900.
- b. less expensive in 1900 compared to 2015.
- c. less expensive in 2015 compared to 1900.
- d. as expensive in 2015 as it was in 1900.

Question 9

A hypothetical bank has \$500 in loans, \$500 in deposits, \$400 in investments, \$100 in cash and reserves, and \$250 in debt. What is the leverage ratio of this bank?

a. 5

b. 4

c. 3

d. There is not enough information to determine.

Question 10

The quantity theory of money says that a doubling of the growth rate in the money supply will, in the long run, lead to

a. a doubling of real GDP growth.

b. a doubling of the price level.

c. a decrease of inflation.

d. a doubling of inflation.

Question 11

Which of the following people benefits from a surprise increase in inflation?

- a. A person receiving a fixed pension
- b. A person with a variable rate mortgage
- c. A lender of large amounts of money who is repaid on a fixed schedule
- d. A person who borrowed large amounts of money on a fixed payment schedule

Question 12

In the long run, the key determinant of the price level is

- a. the money supply.
- b. the growth rate of money.
- c. the velocity of money.
- d. real GDP.

Question 13

The short-run model determines

- a. current output and long-run inflation.
- b. potential output and current inflation.
- c. current output and current inflation.
- d. potential output and current output.

Question 14

According to the bathtub model of unemployment, which of the following statements is true if a law permanently increases only the job finding rate?

- a. The natural rate of unemployment will rise.
- b. The natural rate of unemployment will fall.
- c. The unemployment rate will fall, but the natural rate of unemployment will be unchanged.
- d. The unemployment rate will rise, but the natural rate of unemployment will be unchanged.

Question 15

If the inflation rate is high and the Federal Reserve seeks to best lower the inflation rate, the Federal Reserve should

- a. do nothing.
- b. raise interest rates and request Congress run larger deficits.
- c. lower interest rates.
- d. raise interest rates.

Question 16

A government is more likely to utilize the inflation tax if

- a. it is running a budget deficit.
- b. lenders worry that the government will not pay back its debts.
- c. politicians will not raise taxes, because they cannot be reelected if they do.
- d. All of the these are correct.

Question 17

Which of the following might explain why firms will raise prices when the economy is booming?

- a. Firms seek to take advantage of high demand.
- b. Firms need to pay laborers higher wages in order to produce more output.
- c. Firms do not raise prices in a boom; they lower prices, which explains why output is higher.
- d. Firms seek to take advantage of high demand; and firms need to pay laborers higher wages in order to produce more output, are both correct answers to this question.

Question 18

Under the classical dichotomy, which of the following does not determine real GDP in the long run?

- a. The investment rate
- b. TFP
- c. The aggregate price level
- d. New ideas

Question 19

The natural rate of unemployment is 5 percent. Cyclical unemployment is 2 percent. The level of short-run output is

a. -4 percent.

b. 4 percent.

c. 6 percent.

d. -6 percent.

Question 20

Consider a bank with loans of \$500, equity of \$100, deposits of \$500, investments of \$400, cash and reserves of \$50, and short-term debt of \$200. How much long-term debt does this bank have?

a. \$350

b. \$150

c. \$50

d. \$200