

## Introduction to Macroeconomics · M5 · 2014-15

### Problem Set 2 · Multiple choice questions

---

- What may leave the money multiplier unchanged, where  $l$  is the liquidity ratio and  $r$  is the reserve ratio?
  - $l$  falls and  $r$  remains constant
  - $l$  falls and  $r$  rises
  - $l$  and  $r$  both fall
  - $l$  and  $r$  both duplicate
- Which sequence represents the money stock creation process in the textbook model?
  - $\uparrow$  deposits  $\Rightarrow$   $\downarrow$  loans  $\Rightarrow$   $\uparrow$  reserves  $\Rightarrow$   $\uparrow$  deposits
  - $\uparrow$  deposits  $\Rightarrow$   $\uparrow$  loans  $\Rightarrow$   $\downarrow$  expenditures  $\Rightarrow$   $\downarrow$  revenues  $\Rightarrow$   $\uparrow$  deposits
  - $\uparrow$  deposits  $\Rightarrow$   $\uparrow$  liquidity ratio  $\Rightarrow$   $\uparrow$  money multiplier  $\Rightarrow$   $\uparrow$  deposits
  - None of the above
- What is not a monetary aggregate?
  - M1**
  - The monetary base
  - M2**
  - The money multiplier
- M0** is defined as
  - currency held by the public minus bank reserves.
  - currency held by the public plus sight bank deposits.
  - sight bank deposits minus bank reserves.
  - currency held by the public plus bank reserves.
- If the monetary base is 100, **M1** = 1,000 and the liquidity ratio is 0.1,
  - the money multiplier cannot be calculated.
  - the reserve ratio must be zero.
  - the money multiplier is 10.
  - None of the above
- Identify the sentence that is not false.
  - The money multiplier may be negative.
  - M2** is always smaller than **M1**.
  - M0** is always greater than **M1**.
  - None of the above
- If **M0** remains constant and the cash held by the public diminishes, then
  - bank reserves must have been increased.
  - M1** also remains constant if the money multiplier has fallen.
  - M1** is twice **M0**.
  - It is impossible for **M0** to remain constant.
- Which event does not reduce the money multiplier?
  - An increase in the liquidity ratio
  - An increase in the reserve ratio
  - An increase in the liquidity ratio combined with a decrease in the reserve ratio
  - None of the above
- Which of the following concepts represents currency?
  - The CPI or nominal GDP
  - The bank deposits
  - The liquidity ratio
  - None of the above
- The money multiplier directly relates
  - the difference **M0** – **M3** to the reserve ratio.
  - M1** to **M0**.
  - currency held by the public to loan default.
  - nominal GDP to real GDP.
- The money multiplier process is a process involving
  - real GDP, the inflation rate, and the output gap.
  - the GDP deflator, the CPI, and the monetary base.
  - neither (a), nor (b), nor (d).
  - loans, deposits, expenditures, and revenues.
- Which of the following countries is not a member of the eurozone (officially known as "euro area")?
  - Estonia
  - Malta
  - Slovenia or Latvia
  - None of the above

13. Which claim about the money multiplier process is not true?
- More deposits give rise to more loans.
  - More loans give rise to more expenditure.
  - More expenditures give rise to more revenues.
  - More revenues give rise to fewer deposits.
14. Which variables are linked by the money multiplier?
- The monetary base and the nominal interest rate
  - The money stock and the bank reserves
  - The liquidity ratio and the volume of sight deposits
  - None of the above
15. The money multiplier (as presented in the notes) relates
- the inflation rate to either currency or the GDP growth rate.
  - expenditures and revenues to the inflation rate.
  - the growth rate of real GDP per capita to the monetary base.
  - the money stock **M1** to the monetary base **M0**.
16. With  $l$  being the liquidity ratio and  $r$  the reserve ratio, the money multiplier may remain constant if
- both  $l$  and  $r$  fall.
  - both  $l$  and  $r$  rise.
  - $l$  declines and  $r$  does not change.
  - $l$  goes down and  $r$  goes up.
17. The money multiplier has decreased. A possible explanation is that
- the liquidity ratio  $l$  has decreased.
  - the reserve ratio  $r$  has decreased.
  - liquidity and reserve ratios have not changed.
  - the liquidity ratio  $l$  has increased and the reserve ratio  $r$  has decreased.
18. What variable is not a monetary aggregate?
- M0**
  - The money multiplier
  - M1**
  - All of the above
19. Which variable does not directly affect the money multiplier?
- the liquidity ratio  $l$ .
  - the reserve ratio  $r$ .
  - the rate of growth of **M0**.
  - None of the above
20. Which of the following concepts is a better measure of the amount of money in an economy?
- The amount of coins and bank notes
  - The foreign currency
  - The money stock
  - All of the above
21. Which sentence is not false?
- The liquidity ratio is a monetary aggregate only when money is a not a unit of account.
  - The monetary base is the sum of **M1** and the money multiplier.
  - The inflation rate cannot be smaller than the growth rate of **M2**.
  - Sweden or Latvia or Lithuania is not a member of the eurozone but Estonia is.
22. The money creation process
- is a process that establishes the relationship between the CPI and the GDP deflator, or between real GDP and nominal GDP per capita.
  - is a technique to compute the inflation rate and guarantees the role of money as a means of payment.
  - is an example of the fallacy of composition.
  - is based on the creation of deposits.
23. An individual has a constant liquidity ratio  $l$ . Specifically, he has €1,000 in cash and deposits worth €2,000. While wandering around the streets, he finds a €20 banknote and a €1 coin. According to  $l$  which part of the €21 is held in cash and which part is deposited on a bank?
- Cannot be determined
  - €10.5 are held in cash and €10.5 are deposited on a bank.
  - €14 are held in cash and €7 are deposited on a bank.
  - €7 are held in cash and €14 are deposited on a bank.

24. Suppose financial assets  $A$  and  $B$  differ only in two properties. Which one of the following sentences is more likely to be true?
- If  $A$  is riskier than  $B$ , then  $B$ 's rate of return should be higher than  $A$ 's.
  - If  $A$  is less liquid than  $B$ , then  $A$  should be riskier than  $B$ .
  - If  $A$ 's rate of return is higher than  $B$ 's, then  $A$  should be more liquid than  $B$ .
  - None of the above
25. Financial assets  $A$  and  $B$  differ only in two properties. Which of the following sentences is more likely to be true?
- If  $A$  is as liquid as  $B$ , then  $B$  should be more profitable than  $A$ .
  - If  $A$  is riskier than  $B$ , then  $B$ 's rate of return should be higher than  $A$ 's.
  - If  $A$  is more liquid than  $B$ , then  $B$  should be riskier than  $A$ .
  - If  $A$ 's rate of return is smaller than  $B$ 's, then  $B$  should be less liquid than  $A$ .
26. What cannot be considered a financial asset?
- A bank deposit
  - A government bond
  - A loan
  - None of the above
27. Financial assets  $A$  and  $B$  differ only in two properties. Which one of the following sentences is more likely to be true?
- If  $A$  is more liquid than  $B$ , then  $B$  should be more profitable than  $A$ .
  - If  $A$  is less risky than  $B$ , then  $B$ 's rate of return should be same as  $A$ 's.
  - If  $A$  is less liquid than  $B$ , then  $A$  should be riskier than  $B$ .
  - If  $A$ 's rate of return is higher than  $B$ 's, then  $A$  should be more liquid than  $B$ .
28. Two financial assets differ in just two properties. It is then to be expected that
- the less profitable asset will be the less liquid.
  - the more liquid asset will be the less risky.
  - the riskier asset will be the less profitable.
  - the more profitable asset will be the riskier.
29. Which sentence is highly unlikely?
- A highly liquid financial asset with a high rate of return will be very risky
  - An almost riskless financial asset with a high rate of return will be highly illiquid
  - A highly liquid financial asset with a high rate of return will be almost riskless
  - None of the above
30. It is to be expected from a financial asset that, other things being equal,
- the higher its liquidity, the smaller its risk.
  - the smaller its rate of return, the higher its liquidity.
  - the higher its risk, the smaller its rate of return.
  - None of the above
31. Financial assets  $A$  and  $B$ , traded in a secondary market, differ only in three properties: liquidity, rate of return, and risk. If  $A$  is more liquid than  $B$
- and  $B$  is more risky than  $A$ , then  $A$ 's rate of return should be smaller than  $B$ 's.
  - and  $B$  is less risky than  $A$ , then necessarily  $A$  and  $B$  should have the same rate of return.
  - and both  $A$  and  $B$  are equally risky, then  $A$ 's rate of return should be higher than  $B$ 's.
  - None of the above
32. Sight deposits are  $D = 100$ . The bank reserves are  $R = 20$ . The money multiplier is 3. Then the cash  $E$  held by the public
- is smaller than 30.
  - is larger than 40.
  - is such that the liquidity ratio is smaller than 0.1.
  - cannot be determined.
33. If the liquidity ratio is four times the reserve ratio and the money multiplier is 2, then it is false that
- $M0 = 5 \cdot R$ , where  $R$  designates the banks' reserves.
  - the amount  $R$  of the banks' reserves can be determined.
  - the liquidity ratio is  $2/3$ .
  - cash in the hands of the public is four times  $R$ .