***Financial Markets and Institutions, 7e* (Saunders)**

**Chapter 4 The Federal Reserve System, Monetary Policy, and Interest Rates**

1) Federal Reserve interest rate decisions can be vetoed by the U.S. president or the Congress.

2) Four seats on the FOMC are allocated to Federal Reserve Bank presidents on an annual rotating basis.

3) The monetary base is the amount of coin and currency in circulation plus reserves.

4) Nationally chartered banks are required to become members of the Federal Reserve System.

5) About 34 percent of all U.S. banks are members of the Federal Reserve System.

6) The major asset of the Federal Reserve is currency outside banks and the major liability is U.S. Treasury securities.

7) The seven members of the Board of Governors of the Federal Reserve System serve 14-year nonrenewable terms. Each Board member is appointed by the president and confirmed by the Senate.

8) Federal Reserve Board members are appointed by the U.S. president and confirmed by the Senate for a nonrenewable 14-year term.

9) If the FOMC wished to generate faster economic growth, they could issue a policy directive to the Federal Reserve Board Trading Desk to purchase U.S. government securities.

10) An increase in Treasury securities held by the Fed leads to a decrease in the money supply.

11) One of the objectives of the FOMC is to formulate policies to promote 100 percent employment.

12) During the 2010–2014 period, the Federal Reserve purchased long-term treasury securities as part of the Quantitative Easing program.

13) Quantitative Easing program initiated by the Federal Reserve during the 2010–2014 period, involved the purchase of long-term corporate bonds.

14) According to the current FOMC stances, inflation targeting promotes maximum employment.

15) Countries with independent central banks are subject to political pressure to conduct monetary policies with short-term expectations.

16) The primary policy tool used by the Fed to meet its monetary policy goals is

A) changing the discount rate.

B) changing reserve requirements.

C) devaluing the currency.

D) changing bank regulations.

E) open market operations.

17) The Federal Reserve System is charged with

A) regulating securities exchanges.

B) conducting monetary policy.

C) providing payment and other services to a variety of institutions.

D) setting bank prime rates.

E) conducting monetary policy and providing payment and other services to a variety of institutions.

18) The \_\_\_\_\_\_\_\_ is a nationwide network jointly operated by the Fed and private institutions that electronically process credit and debit transfers of funds.

A) Fedwire

B) ACH

C) CHIPS

D) NASDAQ

E) SWIFT

19) The \_\_\_\_\_\_\_\_ is a network linking over 9,000 banks with the Federal Reserve that is used to transfer deposits and make loan payments between participants.

A) Fedwire

B) ACH

C) CHIPS

D) NASDAQ

E) SWIFT

20) Ceteris paribus, if the Fed was targeting the quantity of money supplied and money demand dropped, the Fed would likely \_\_\_\_\_\_\_\_. If the Fed was instead targeting interest rates and money demand dropped, the Fed would likely \_\_\_\_\_\_\_\_.

A) increase the money supply; do nothing

B) do nothing; decrease the money supply

C) decrease the money supply; do nothing

D) do nothing; increase the money supply

E) increase the money supply; decrease the money supply

21) Which of the following is the major monetary policy-making body of the U.S. Federal Reserve System?

A) FOMC

B) OCC

C) FRB bank presidents

D) U.S. Congress

E) Group of Eight

22) The major liability of the Federal Reserve is

A) U.S. Treasury securities.

B) depository institution reserves.

C) currency outside banks.

D) vault cash of commercial banks.

E) gold and foreign exchange.

23) The major asset of the Federal Reserve is

A) U.S. Treasury securities.

B) depository institution reserves.

C) currency outside banks.

D) vault cash of commercial banks.

E) gold and foreign exchange.

24) The Fed funds rate is the rate that

A) banks charge for loans to corporate customers.

B) banks charge to lend foreign exchange to customers.

C) the Federal Reserve charges on emergency loans to commercial banks.

D) banks charge each other on loans of excess reserves.

E) banks charge securities dealers to finance their inventory.

25) The discount rate is the rate that

A) banks charge for loans to corporate customers.

B) banks charge to lend foreign exchange to customers.

C) banks charge each other on loans of excess reserves.

D) banks charge securities dealers to finance their inventory.

E) the Federal Reserve charges on loans to commercial banks.

26) The Fed offers three types of discount window loans. \_\_\_\_\_\_\_\_ credit is offered to small institutions with demonstrable patterns of financing needs, \_\_\_\_\_\_\_\_ credit is offered for short-term temporary funds outflows, and \_\_\_\_\_\_\_\_ credit may be offered at a higher rate to troubled institutions with more severe liquidity problems.

A) Seasonal; extended; adjustment

B) Extended; adjustment; seasonal

C) Adjustment; extended; seasonal

D) Seasonal; primary; secondary

E) Adjustment; seasonal; extended

27) Before 2003 the discount window loan rate was set

A) below the target Fed funds rate.

B) above the target Fed funds rate.

C) equal to the target Fed funds rate.

D) equal to the repurchase rate.

28) A decrease in reserve requirements could lead to an

A) increase in bank lending.

B) increase in the money supply.

C) increase in the discount rate.

D) increase in bank lending and an increase in the money supply.

E) increase in bank lending and an increase in the discount rate.

29) Bank A has an increase in deposits of $20 million dollars and all bank reserve requirements are 10 percent. Bank A loans out the full amount of the deposit increase that is allowed. This amount winds up deposited in Bank B. Bank B lends out the full amount possible as well and this amount winds up deposited in Bank C. What is the total increase in deposits resulting from these three banks?

A) $48.00 million

B) $54.20 million

C) $56.33 million

D) $57.10 million

E) $60.00 million

30) The Fed changes reserve requirements from 10 percent to 7 percent, thereby creating $900 million in excess reserves. The total change in deposits (with no drains) would be

A) $3,000 million.

B) $15,625 million.

C) $12,857 million.

D) $3,795 million.

E) None of these choices are correct.

31) If the Fed wishes to stimulate the economy, it could

I. buy U.S. government securities.

II. raise the discount rate.

III. lower reserve requirements.

A) I and III only

B) II and III only

C) I and II only

D) II only

E) I, II, and III

32) Currently the Fed sets monetary policy by targeting

A) the Fed funds rate.

B) the prime rate.

C) the level of nonborrowed reserves.

D) the level of borrowed reserves.

E) the stock market.

33) From October 1983 to July 1993, the Federal Reserve targeted

A) the Fed funds rate.

B) borrowed reserves.

C) nonborrowed reserves.

D) M1.

E) M3.

34) Assume oil prices rise in the United States, generating concerns that inflation may increase. If the Fed wishes to ensure that inflation does not get out of hand, the Fed could

A) intervene in the currency markets to push the value of the dollar down.

B) decrease the discount rate.

C) lower the target Fed funds rate.

D) lower the target money supply growth rate.

E) reduce reserve requirements at banks.

35) The Fed changes reserve requirements from 10 percent to 14 percent, thereby eliminating $750 million in excess reserves. The total change in deposits (with no drains) would be (rounded)

A) $7.917 billion.

B) $6.630 billion.

C) $5.357 billion.

D) $4.934 billion.

E) None of these choices are correct.

36) The Fed increases bank reserves in the system by $75 million. If there are no drains, the expected change in bank deposits is

A) $82.5 million.

B) $945 million.

C) $750 million.

D) $1,500 million.

E) $655 million.

37) If the Fed is targeting interest rates and money demand increases, an appropriate policy response would be to

A) increase reserve requirements.

B) increase the discount rate.

C) buy U.S. Treasury securities from government bond dealers.

D) increase government spending.

E) None of these choices are correct.

38) The major monetary policy-making arm of the Federal Reserve is the

A) Board of Governors.

B) Council of Federal Reserve Bank presidents.

C) Office of the Comptroller of the Currency.

D) Federal Reserve Bank of New York.

E) None of these choices are correct.

39) In the area of bank supervision, which of the following are functions of the Federal Reserve Banks?

I. Examinations of state member banks

II. Approval of member bank and bank holding company acquisitions

III. Deposit insurance

A) I only

B) I and II only

C) II and III only

D) I and III only

E) I, II, and III

40) The Check 21 Act, effective in October 2004, does which of the following?

A) Allows bank customers to better take advantage of bank float

B) Requires banks to immediately clear all customer deposits

C) Prohibits the Fed from being involved in check clearing to prevent unfair competition with private check clearing agencies

D) Authorizes the use of an electronic image to facilitate paperless check clearing

E) Eliminates all fees on checking

41) A bank has $770 million in checkable deposits. The bank has $85 million in reserves. The bank's required reserves are \_\_\_\_\_\_\_\_ and its excess reserves are \_\_\_\_\_\_\_\_.

A) $85 million; $0

B) $770 million; $85 million

C) $89 million; $21 million

D) $685 million; $8.5 million

E) $77 million; $8 million

42) The Federal Reserve does all but which one of the following?

A) Conducts monetary policy

B) Supervises and regulates bank activities

C) Serves as the commercial bank for the U.S. Treasury

D) Operates check clearing and wire transfer facilities

E) Insures deposits

43) Which of the following is not a goal of monetary policy?

A) Moderate long-term interest rates.

B) Stable interest rates.

C) High employment.

D) Stable prices.

E) All of these choices are correct.

44) Which of the following is not a program initiated by world's major central banks during the financial crisis of 2007 to avoid a deep worldwide recession?

A) Expansion of retail deposit insurance

B) Capital injections

C) Purchase of U.S. dollars

D) Debt guarantees

E) Asset purchases/guarantees

45) What are the intended consequences from charging an interest on excess reserves by Central banks?

A) Banks lend less money.

B) Interest rates increase.

C) Banks deposits increase.

D) Banks lend more money.

E) All of these choices are correct.

46) In the aftermath of the 2007 financial crisis, the Fed used several programs to increase liquidity, including \_\_\_\_\_\_\_\_.

A) expansion of the discount window

B) setting up the Term Auction Facility

C) lending to investment banks

D) purchase of long-term treasury bonds

E) All of these choices are correct.

47) What are the four major functions of the Federal Reserve System?

48) The 12 Federal Reserve Banks perform what functions?

49) How do Federal Reserve Banks generate income? Do they require supplemental funding from Congress?

50) Why did the Fed switch from increasing rates prior to 2007 to reducing interest rates in 2007 and 2008?

51) What are the main responsibilities of the FOMC?

52) Explain how a change in open market operations can affect a new college graduate.

53) How have recent changes in discount window credit programs affected the use of this tool for monetary policy?

54) Explain how the deposit multiplier works.

55) The Fed wishes to expand the money supply. What three things can it do? Which has the most predictable effects? Be specific.

56) Is there a trade-off between controlling domestic inflation and maintaining a sustainable pattern of international trade?

57) Suppose that oil prices hit an all-time high of $200 a barrel, driving U.S. inflation up to 7 percent per year. At the same time, weak U.S. growth and increasing foreign competition have generated unacceptably high levels of unemployment in the United States. You are the chair of the Federal Reserve. What do you suggest?

58) What does the 2004 Check 21 Law allow? Why was this Law passed? Does it benefit the customer or banks? Explain.

59) What supervisory and regulatory authority does the Fed have under current law?

60) Why do changes in reserve requirements have less predictable effects on the money supply in comparison to changes in open market operations?