

Pre-Test Chapter 13 ed17

Multiple Choice Questions

1. Suppose that a bank's actual reserves are \$5 million, its checkable deposits are \$5 million, and its excess reserves are \$3 million. The reserve requirement must be:
- A. 40 percent.
 - B. 20 percent.
 - C. 10 percent.
 - D. 5 percent.
2. Suppose a savings and loan association has checkable deposits of \$500,000 and the legal reserve ratio is 10 percent. If the institution has excess reserves of \$4,000, then its actual reserves are:
- A. \$46,000.
 - B. \$50,000.
 - C. \$54,000.
 - D. \$4,000.
3. The Federal funds market is the market in which:
- A. banks borrow from the Federal Reserve Banks.
 - B. U.S. securities are bought and sold.
 - C. banks borrow reserves from one another on an overnight basis.
 - D. Federal Reserve Banks borrow from one another.

Answer the next question(s) on the basis of the following table for a commercial bank or thrift:

	Reserve requirement, percent	Checkable deposits	Actual reserves	Excess reserves
(1)	<u>W</u>	\$100,000	\$ 10,000	\$ 0
(2)	8	<u>X</u>	20,000	12,000
(3)	12	200,000	Y	8,000
(4)	20	300,000	70,000	Z

4. Refer to row 2 in the above table. The number appropriate for space X is:
- A. \$20,000.
 - B. \$60,000.
 - C. \$200,000.
 - D. \$100,000.

5. If actual reserves in the banking system are \$50,000, excess reserves are \$5,000, and checkable deposits are \$225,000, then the monetary multiplier is:

- A. 10.
- B. 4.
- C. 5.
- D. 10.

Answer the next question(s) on the basis of the following balance sheet for the First National Bank of Bunco. All figures are in millions.

<u>Assets</u>		<u>Liabilities and net worth</u>	
Reserves	\$ 20	Checkable deposits	\$100
Loans	25	Stock shares	50
Securities	15		
Property	90		

6. Refer to the above data. Suppose that this bank currently has \$6 million in excess reserves and that customers of this bank collectively write checks for cash at the bank in the amount of \$6 million. As a result, the bank's excess reserves diminish to:

- A. \$0.
- B. \$6 million.
- C. \$.72 million.
- D. \$.84 million.

7. If we both have checking accounts in the same commercial bank and I write a check in your favor for \$200, the bank's:

- A. balance sheet will be unchanged.
- B. reserves and checkable deposits will both decline by \$200.
- C. liabilities will decline by \$200, but its net worth will increase by \$200.
- D. assets and liabilities will both decline by \$200.

8. Refer to row 3 in the above table. The number appropriate for space Y is:

- A. \$24,000.
- B. \$32,000.
- C. \$48,000.
- D. \$96,000.

Answer the next question(s) on the basis of the following consolidated balance sheet for the commercial banking system. Assume the required reserve ratio is 10 percent. All figures are in billions.

<u>Assets</u>		<u>Liabilities and net worth</u>	
Reserves	\$ 30	Checkable deposits	\$300
Securities	70	Stock shares	130
Loans	130		
Property	200		

9. Refer to the above data. After a deposit of \$10 billion of new currency into a checking account in the banking system, excess reserves will increase by:

- A. \$0 billion.
- B. \$7 billion.
- C. \$9 billion.
- D. \$10 billion.

10. If a portion of the loans extended by commercial banks is taken as cash rather than as checkable deposits, the maximum money-creating potential of the commercial banking system will:

- A. be equal to twice the reciprocal of the reserve ratio.
- B. be unaffected.
- C. increase.
- D. decrease.

Answer the next question(s) on the basis of the following table for a commercial bank or thrift:

(1) Legal reserve ratio, percent	(2) Checkable deposits	(3) Actual reserves
10	\$40,000	\$10,000
20	40,000	10,000
25	40,000	10,000
30	40,000	10,000

11. Refer to the above table. When the legal reserve ratio is 20 percent, the money creating potential of the entire banking system is:

- A. \$4,000.
- B. \$6,000.
- C. \$8,000.
- D. \$10,000.

12. The ABC Commercial Bank has \$5,000 in excess reserves and the reserve ratio is 30 percent. The bank must have:

- A. \$90,000 in outstanding loans and \$35,000 in reserves.
- B. \$90,000 in checkable deposit liabilities and \$32,000 in reserves.
- C. \$20,000 in checkable deposit liabilities and \$10,000 in reserves.
- D. \$90,000 in checkable deposit liabilities and \$35,000 in reserves.

13. If you deposit a \$50 bill in a commercial bank that has a 10 percent legal reserve requirement the bank will:

- A. have \$45 of additional excess reserves.
- B. be capable of lending an additional \$500.
- C. be capable of lending an additional \$50.
- D. have \$50 of required reserves.

14. When a commercial bank has excess reserves:

- A. it is in a position to make additional loans.
- B. its actual reserves are less than its required reserves.
- C. it is charging too high an interest rate on its loans.
- D. its reserves exceed its assets.

15. If m equals the maximum number of new dollars that can be created for a single dollar of excess reserves and R equals the required reserve ratio, then for the banking system:

- A. $m = R - 1$.
- B. $R = m/1$.
- C. $R = m - 1$.
- D. $m = 1/R$.

16. A fractional reserve banking system:

- A. is susceptible to bank panics.
- B. prevents money creation through the lending process.
- C. only tends to exist in developing economies.
- D. prevents the Federal Reserve from influencing the money supply.

17. A bank temporarily short of required reserves may be able to remedy this situation by:

- A. borrowing funds in the Federal funds market.
- B. granting new loans.
- C. shifting some of its vault cash to its reserve account at the Federal Reserve.
- D. buying bonds from the public.

18. The goldsmith's ability to create money was based on the fact that:

- A. withdrawals of gold tended to exceed deposits of gold in any given time period.
- B. consumers and merchants preferred to use gold for transactions, rather than paper money.
- C. the goldsmith was required to keep 100 percent gold reserves.
- D. paper money in the form of gold receipts was rarely redeemed for gold.

19. Bank panics:

- A. occur frequently in fractional reserve banking systems.
- B. are a risk of fractional reserve banking, but are unlikely when banks are highly regulated and lend prudently.
- C. cannot occur in a fractional reserve banking system.
- D. occur more frequently when the monetary system is backed by gold.

Use the following balance sheet for the ABC National Bank in answering the next question(s). Assume the required reserve ratio is 20 percent.

	<u>Assets</u>		<u>Liabilities and net worth</u>
Reserves	\$ 27,000	Checkable deposits	\$110,000
Loans	50,000	Stock shares	200,000
Securities	33,000		
Property	200,000		

20. Refer to the above data. This bank can safely expand its loans by a maximum of:

- A. \$7,000.
- B. \$25,000.
- C. \$12,000.
- D. \$5,000.

21. (Last Word) A "national bank holiday" that closed all banks for a week and resulted in Federal deposit insurance occurred in the United States in:

- A. 1903, following the "Louisiana stampede."
- B. 1987, following the collapse of numerous savings and loan associations.
- C. 1945, following the end of the Second World War.
- D. 1933, following the bank panics of 1930-1933.

Answer the next question(s) on the basis of the following information for the Moolah Bank.

Reserves	\$ 100
Checkable deposits	1000
Loans (to customers)	300
Property	400
Securities (owned)	300
Stock shares	0

22. Refer to the above information and assumed that Moolah bank is "loaned up." If it receives a \$100 deposit of currency, it could safely expand its loans by:

- A. \$100.
- B. \$90.
- C. \$900.
- D. \$1000.

23. Suppose a commercial banking system has \$100,000 of outstanding checkable deposits and actual reserves of \$35,000. If the reserve ratio is 20 percent, the banking system can expand the supply of money by the maximum amount of:

- A. \$122,000.
- B. \$175,000.
- C. \$300,000.
- D. \$75,000.

24. If excess reserves in the banking system are \$4,000, checkable deposits are \$40,000, and the legal reserve ratio is 10 percent, then actual reserves are:

- A. \$4,000.
- B. \$6,000.
- C. \$8,000.
- D. \$5,000.

Answer the next question(s) on the basis of the following consolidated balance sheet for the commercial banking system. Assume the required reserve ratio is 30 percent. All figures are in billions.

<u>Assets</u>		<u>Liabilities and net worth</u>	
Reserves	\$ 51	Checkable deposits	\$140
Securities	100	Stock shares	130
Loans	109		
Property	10		

25. Refer to the above data. If the commercial banking system actually loans the maximum amount it is able to lend:

- A. reserves and deposits equal to that amount will be gained.
- B. excess reserves will be \$2.6 billion.
- C. excess reserves will fall to \$1.7 billion.
- D. excess reserves will be reduced to zero.

26. Which of the following statements is correct?

- A. The actual reserves of a commercial bank equal its excess reserves minus its required reserves.
- B. A bank's liabilities plus its net worth equal its assets.
- C. When borrowers repay bank loans, the supply of money increases.
- D. A single commercial bank can safely lend a multiple amount of its excess reserves.

27. Other things equal, if the required reserve ratio was lowered:

- A. banks would have to reduce their lending.
- B. the size of the monetary multiplier would increase.
- C. the actual reserves of banks would increase.
- D. the Federal funds interest rate would rise.

28. The basic reason why the commercial banking system can increase its checkable deposits by a multiple of its excess reserves is that:

- A. reserves lost by any particular bank will be gained by some other bank.
- B. the central banks follow policies that prevent reserves from falling below the level required by law.
- C. the MPC of borrowers is greater than zero, but less than 1.
- D. the banking system must keep reserves equal to 100 percent of its checkable-deposit liabilities.

29. Assume that Smith deposits \$600 in currency into her checking account in the XYZ Bank. Later that same day Jones negotiates a loan for \$1,200 at the same bank. In what direction and by what amount has the supply of money changed?

- A. decreased by \$600
- B. increased by \$1,800
- C. increased by \$600
- D. increased by \$1,200

Answer the next question(s) on the basis of the following information about a banking system: new currency deposited in the system = \$40 billion; legal reserve ratio = 0.20; excess reserves prior to the currency deposit = \$0.

30. Refer to the above information. The \$40 billion deposit of currency into checking accounts will initially create:

- A. \$8 billion of new checkable deposits.
- B. \$10 billion of new checkable deposits.
- C. \$40 billion of new checkable deposits.
- D. \$160 billion of new checkable deposits.

Pre-Test Chapter 13 ed17 **Key**

- | | | |
|-------|-------|-------|
| 1. A | 11. D | 21. D |
| 2. C | 12. B | 22. B |
| 3. C | 13. A | 23. D |
| 4. D | 14. A | 24. C |
| 5. C | 15. D | 25. D |
| 6. D | 16. A | 26. B |
| 7. A | 17. A | 27. B |
| 8. B | 18. D | 28. A |
| 9. C | 19. B | 29. D |
| 10. D | 20. D | 30. C |