

PRACTICE- Unit 11 AP Economics

Multiple Choice

Identify the choice that best completes the statement or answers the question.

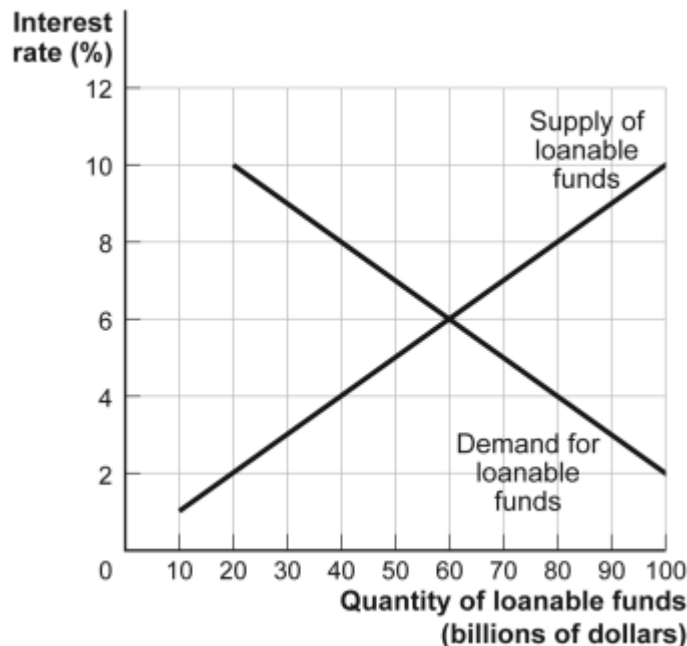
1. The term “liquid asset” means:
 - A. that the asset is used in a barter exchange.
 - B. that the asset is used as the medium of exchange.
 - C. that the asset is readily convertible to cash.
 - D. that the asset can be purchased if the market interest rate is low.
 - E. that the asset can be purchased only if the price is below equilibrium.

Scenario 25-2: Money Creation

The reserve requirement is 20%, and Leroy deposits his \$1,000 check received as a graduation gift in his checking account. The bank does NOT want to hold excess reserves.

2. Use **Scenario 25-2**. What is the maximum expansion in the money supply possible?
 - A. \$1,000
 - B. \$1,800
 - C. \$4,000
 - D. \$5,000
 - E. \$10,000
3. Use **Scenario 25-2**. Which of the following is an accurate description of the bank's balance sheet immediately after the deposit?
 - A. Reserves increase by \$1,000, and demand deposits increase by \$1,000.
 - B. Reserves increase by \$1,000, and demand deposits decrease by \$1,000.
 - C. Reserves decrease by \$1,000, and demand deposits decrease by \$1,000.
 - D. Reserves decrease by \$200, and demand deposits increase by \$1,000.
 - E. Reserves increase by \$800, and demand deposits increase by \$1,000.
4. Use **Scenario 25-2**. How much can the bank loan based on the \$1,000 deposit?
 - A. \$1,000
 - B. \$200
 - C. \$800
 - D. \$0
 - E. \$900
5. Use **Scenario 25-2**. By how much did the monetary base change?
 - A. \$0
 - B. \$800
 - C. \$1,000
 - D. \$4,000
 - E. \$5,000
6. For a bank, when a person deposits money into the bank, this:
 - A. creates only an asset for the bank.
 - B. creates only a liability for the bank.
 - C. creates a liability and an asset for the bank.
 - D. is most likely to result in a decrease in the money supply.
 - E. creates a liability for the depositor.

Figure 29-5: Market for Loanable Funds I



7. Use the “**Market for Loanable Funds I**” **Figure 29-5**. According to the accompanying figure, the equilibrium interest rate is:
 - A. 2%.
 - B. 4%.
 - C. 6%.
 - D. 8%.
 - E. 5%.
8. Crowding out negatively affects the economy by:
 - A. decreasing government borrowing.
 - B. decreasing consumption.
 - C. increasing private borrowing.
 - D. reducing investment spending on physical capital.
 - E. decreasing government deficits.
9. Which of the following is considered investment spending in macroeconomics?
 - A. GM builds a new plant to manufacture automobiles.
 - B. Ryan Jones buys some GM stock.
 - C. Ryan Jones buys some GM bonds.
 - D. Ryan Jones buys some GM stock and bonds.
 - E. Ryan Jones buys a GM automobile.
10. Economists view investment spending as which of the following?
 - A. stocks
 - B. bonds
 - C. Spending on physical capital.
 - D. mutual fund investing
 - E. Spending on human capital.
11. Which of the following is considered an act of investing in a physical asset?
 - A. Purchasing shares of stock in IBM.
 - B. Selling shares of stock in IBM.
 - C. Buying a bond issued by IBM.

- D. Buying a new factory that produces IBM handheld devices.
- E. Buying a new IBM computer to take to college.

Scenario 22-2: Open Economy $S = I$

In an open economy suppose that GDP is \$12 trillion. Consumption is \$8 trillion and government spending is \$2 trillion. Taxes are \$0.5 trillion. Exports are \$1 trillion and imports are \$3 trillion.

12. Use **Scenario 22-2**. How much is private saving?
 - A. \$4 trillion
 - B. \$2.5 trillion
 - C. \$3.5 trillion
 - D. \$1.5 trillion
 - E. \$3 trillion
13. Use **Scenario 22-2**. What is the government budget balance?
 - A. a surplus of \$1.5 trillion
 - B. a deficit of \$1.5 trillion
 - C. a deficit of \$0.5 trillion
 - D. a surplus of \$3.5 trillion
 - E. a deficit of \$2 trillion
14. Use **Scenario 22-2**. How much is national saving?
 - A. \$4 trillion
 - B. \$3.5 trillion
 - C. \$2 trillion
 - D. \$5.5 trillion
 - E. \$3 trillion
15. Use **Scenario 22-2**. How much is the net capital inflow?
 - A. \$1 trillion
 - B. \$2 trillion
 - C. \$3 trillion
 - D. \$4 trillion
 - E. \$2.5 trillion
16. Use **Scenario 22-2**. How much is investment spending?
 - A. \$2 trillion
 - B. \$3 trillion
 - C. \$3.5 trillion
 - D. \$4 trillion
 - E. \$2.5 trillion
17. Today the dollar in your pocket is described as:
 - A. commodity money.
 - B. near-money.
 - C. fiat money.
 - D. commodity-backed money.
 - E. barter money.
18. Bank reserves are:
 - A. the fraction of deposits kept in gold with the Federal Reserve.
 - B. the deposits lent to finance illiquid investments.
 - C. the fraction of deposits kept in the form of very liquid assets.
 - D. gold kept in the bank's vault.
 - E. the mortgages banks make to home buyers. :

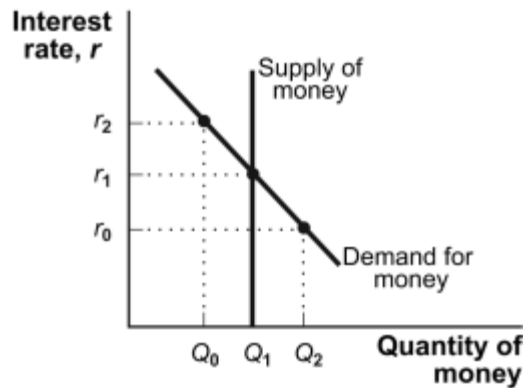
19. The reserve ratio is the:
- bank's holdings of gold.
 - government's holdings of gold at Fort Knox.
 - fraction of deposits the banks hold in their vaults.
 - ratio of gold to the paper money in the economy.
 - fraction of deposits that are lent to borrowers.

Assets		Liabilities
Loans	\$900,000	Deposits \$1,000,000
Reserves	\$100,000	
Scenario 25-3: Assets and Liabilities of the Banking System		

20. Use **Scenario 25-3**. If the reserve ratio is 5% and the banking system does NOT want to hold excess reserves, then _____ will be added to the money supply.
- \$666,667
 - \$111,111
 - \$250,000
 - \$1,000,000
 - \$500,000
21. Suppose the reserve ratio is 25%, then the money multiplier is
- 5.
 - 0.25.
 - 4.
 - 1/25.
 - 10.
22. The monetary base is:
- the sum of reserves held by the banks and currency in circulation.
 - the sum of checkable bank deposits and bank reserves.
 - the sum of savings deposits and currency in circulation.
 - the sum of checkable bank deposits and currency in circulation.
 - the sum of outstanding loans and currency in circulation.
23. If the required reserve ratio rises:
- the money multiplier will also rise.
 - the banking system will experience a contraction in its level of bank deposits.
 - the amount of reserves in the banking system will decrease.
 - excess reserves will also rise.
 - the money supply will expand.
24. In the U.S., the institution that is charged with determining the size of the monetary base and with regulating the banking system is the:
- Treasury Department.
 - Commerce Department.
 - U.S. Senate Banking Committee.
 - Federal Reserve.
 - President's Council of Economic Advisors.
25. Which of the following is a tool used by the Fed in the conduct of monetary policy?
- Changes in the prime rate.
 - Issuing new government bonds and retiring old ones.
 - Buying and selling corporate bonds.

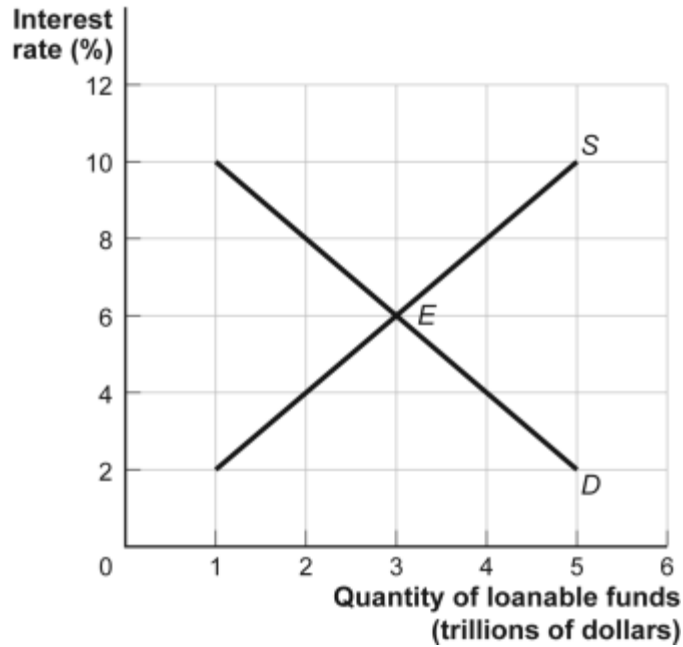
- D. Buying and selling federal government bonds.
 - E. Raising and lowering import tariffs.
26. The tools of conducting monetary policy include:
- A. changes in the reserve requirement.
 - B. changes in the prime rate.
 - C. open market purchases of corporate stock.
 - D. changing tax rates.
 - E. regulating the New York Stock Exchange.
27. If the Fed increases the discount rate:
- A. the money supply is likely to decrease.
 - B. the money supply is likely to increase.
 - C. the money supply is not likely to change.
 - D. the federal funds rate must decrease.
 - E. nominal interest rates will fall.
28. Federal funds are:
- A. government tax receipts.
 - B. loans between banks.
 - C. government expenditures.
 - D. bank deposits at the Federal Reserve.
 - E. government transfer payments.
29. If the Fed conducts an open-market purchase:
- A. bank reserves decrease and the money supply decreases.
 - B. bank reserves increase and the money supply increases.
 - C. bank reserves decrease and the money supply increases.
 - D. bank reserves increase and the money supply decreases.
 - E. bank reserves increase and the money supply does not change.
30. If the Fed conducts a \$10 million open-market sale and the reserve requirement is 20%, the monetary base will:
- A. increase by \$10 million.
 - B. increase by \$8 million.
 - C. decrease by \$10 million.
 - D. decrease by \$50 million.
 - E. increase by \$50 million.
31. Suppose that the reserve ratio is 10% when the Fed buys \$100,000 of U.S. Treasury bills from the banking system. If the banking system does NOT want to hold any excess reserves, _____ will be added to the money supply.
- A. \$666,667
 - B. \$111,111
 - C. \$250,000
 - D. \$1,000,000
 - E. \$900,000
32. When banks borrow and lend reserves from each other, they are participating in the _____ market.
- A. subprime mortgage
 - B. long-term capital
 - C. money
 - D. federal funds
 - E. foreign exchange

Figure 28-1: Money Market II



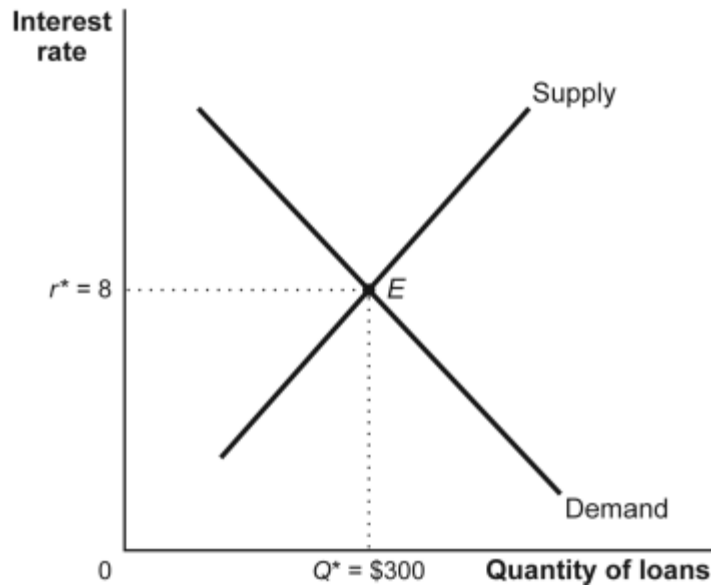
33. Use the “**Money Market II**” **Figure 28-1**. Equilibrium in this money market will occur at interest rate _____ and quantity of money _____.
- r_2 ; Q_0
 - r_0 ; Q_2
 - r_2 ; Q_2
 - r_1 ; Q_2
 - r_1 ; Q_1
34. Use the “**Money Market II**” **Figure 28-1**. If the interest rate is above the equilibrium rate, there will be an _____ money and the interest rate will _____.
- excess demand for; rise
 - excess supply of; fall
 - excess demand for; fall
 - excess supply of; rise
 - excess supply of; remain the same
35. Use the “**Money Market II**” **Figure 28-1**. If the rate of interest is below the equilibrium rate, there will be an _____ money and the interest rate will _____.
- excess demand for; rise
 - excess supply of; fall
 - excess demand for; fall
 - excess supply of; rise
 - excess supply of; remain the same
36. A business will want to borrow to undertake an investment project when the rate of return on that project is:
- less than the interest rate.
 - greater than the interest rate.
 - greater than the exchange rate.
 - equal to the inflation rate.
 - less than the inflation rate.
37. The demand for loanable funds is _____ sloping because _____ respond to lower interest rates by _____ their quantity demanded of loanable funds.
- downward; investors; increasing
 - downward; savers; increasing
 - upward; investors; decreasing
 - upward; savers; decreasing
 - downward; investors; decreasing

Figure 29-3: Loanable Funds Market



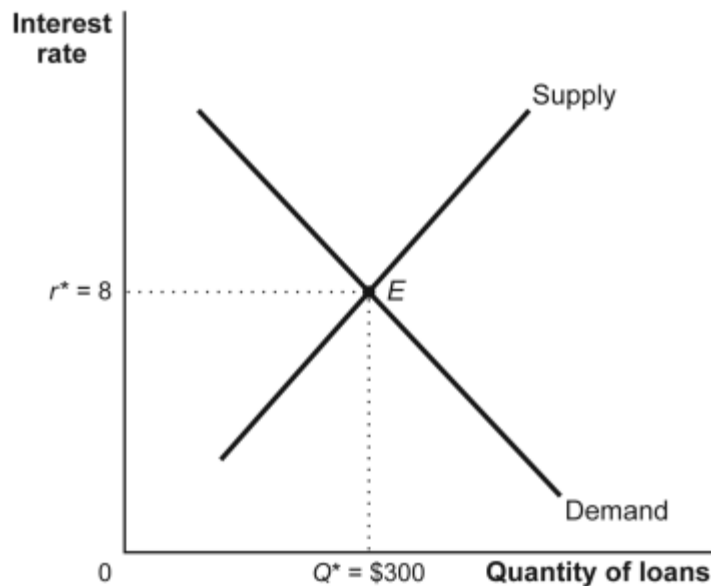
38. Use the “**Loanable Funds Market**” **Figure 29-3**. If the interest rate is 8%, businesses will want to borrow approximately:
- \$3 trillion.
 - \$2 trillion.
 - \$4 trillion.
 - \$1 trillion.
 - \$5 trillion.
39. Use the “**Loanable Funds Market**” **Figure 29-3**. If the interest rate is 8%, people will want to save approximately:
- \$3 trillion.
 - \$2 trillion.
 - \$4 trillion.
 - \$1 trillion.
 - \$5 trillion.
40. Use the “**Loanable Funds Market**” **Figure 29-3**. The equilibrium interest rate and total quantity of lending are:
- 8% and \$2 trillion.
 - 2% and \$5 trillion.
 - 10% and \$1 trillion.
 - 6% and \$3 trillion.
 - 4% and \$5 trillion.

Figure 29-8: Market for Loanable Funds II



41. Use the “**Market for Loanable Funds II**” Figure 29-8. An increase in government borrowing will shift the demand for loanable funds to the:
- A. left and increase the interest rate.
 - B. left and decrease the interest rate.
 - C. right and increase the interest rate.
 - D. right and decrease the interest rate.
 - E. right and have no impact on the interest rate.

Figure 29-9: Market for Loanable Funds II



42. Use the “**Market for Loanable Funds II**” Figure 29-9. An increase in savings by the private sector will shift the supply of loanable funds to the:
- A. left and increase the interest rate.
 - B. right and decrease the interest rate.

- C. right and increase the interest rate.
 - D. left and decrease the interest rate.
 - E. right and have no impact on the interest rate.
43. The loanable funds model focuses on the:
- A. demand for money.
 - B. supply of funds from lenders.
 - C. supply of funds from borrowers and the demand for funds by lenders
 - D. supply of funds from lenders and the demand for funds from borrowers.
 - E. supply of money.

**PRACTICE- Unit 6 AP Economics
Answer Section**

MULTIPLE CHOICE

- | | | |
|------------|--------|--------------------------|
| 1. ANS: C | PTS: 1 | SKL: Definitional |
| 2. ANS: C | PTS: 1 | SKL: Analytical Thinking |
| 3. ANS: A | PTS: 1 | SKL: Critical Thinking |
| 4. ANS: C | PTS: 1 | SKL: Critical Thinking |
| 5. ANS: A | PTS: 1 | SKL: Analytical Thinking |
| 6. ANS: C | PTS: 1 | SKL: Critical Thinking |
| 7. ANS: C | PTS: 1 | SKL: Concept-Based |
| 8. ANS: D | PTS: 1 | SKL: Concept-Based |
| 9. ANS: A | PTS: 1 | SKL: Concept-Based |
| 10. ANS: C | PTS: 1 | SKL: Concept-Based |
| 11. ANS: D | PTS: 1 | SKL: Concept-Based |
| 12. ANS: C | PTS: 1 | SKL: Critical Thinking |
| 13. ANS: B | PTS: 1 | SKL: Critical Thinking |
| 14. ANS: C | PTS: 1 | SKL: Critical Thinking |
| 15. ANS: B | PTS: 1 | SKL: Critical Thinking |
| 16. ANS: D | PTS: 1 | SKL: Analytical Thinking |
| 17. ANS: C | PTS: 1 | SKL: Definitional |
| 18. ANS: C | PTS: 1 | SKL: Definitional |
| 19. ANS: C | PTS: 1 | SKL: Definitional |
| 20. ANS: D | PTS: 1 | SKL: Analytical Thinking |
| 21. ANS: C | PTS: 1 | SKL: Analytical Thinking |
| 22. ANS: A | PTS: 1 | SKL: Definitional |
| 23. ANS: B | PTS: 1 | SKL: Critical Thinking |
| 24. ANS: D | PTS: 1 | SKL: Fact-Based |
| 25. ANS: D | PTS: 1 | SKL: Definitional |
| 26. ANS: A | PTS: 1 | SKL: Fact-Based |
| 27. ANS: A | PTS: 1 | SKL: Critical Thinking |
| 28. ANS: B | PTS: 1 | SKL: Definitional |
| 29. ANS: B | PTS: 1 | SKL: Critical Thinking |
| 30. ANS: C | PTS: 1 | SKL: Critical Thinking |
| 31. ANS: D | PTS: 1 | SKL: Critical Thinking |
| 32. ANS: D | PTS: 1 | SKL: Fact-Based |
| 33. ANS: C | PTS: 1 | SKL: Concept-Based |
| 34. ANS: B | PTS: 1 | SKL: Concept-Based |
| 35. ANS: A | PTS: 1 | SKL: Concept-Based |
| 36. ANS: B | PTS: 1 | SKL: Concept-Based |
| 37. ANS: A | PTS: 1 | SKL: Concept-Based |
| 38. ANS: B | PTS: 1 | SKL: Concept-Based |
| 39. ANS: C | PTS: 1 | SKL: Concept-Based |
| 40. ANS: D | PTS: 1 | SKL: Concept-Based |
| 41. ANS: C | PTS: 1 | SKL: Critical Thinking |

