1. Which of the following statements is most true concerning economic policy in the U.S.?

A. Monetary policymakers tend to have a long view while fiscal policymakers tend to ignore the long run inflationary ramifications of their actions.

B. Fiscal policymakers tend to focus on inflation and unemployment while monetary policymakers focus most of their attention on the money supply and the exchange rate.

C. Fiscal policymakers tend to focus more on pleasing their constituents while monetary policymakers may be willing to upset voters today if it means a better long run.

D. a and c

E. b and c

2. Considering the balance sheet for all commercial banks in the U.S., the largest category of liabilities is:

A. Borrowing from other banks in the U.S.
B. Savings Deposits and Time deposits.
C. Checkable Deposits.
D. Borrowings from Non-banks in the U.S.

3. Which of the following statements regarding checkable deposits is most accurate?

A. Checkable deposits are a larger source of bank funds today than in 1970.
B. Checkable deposits are no longer a source of bank funds.
C. Checkable deposits are a less important source of bank funds today than in 1970.
D. Checkable deposits continue to be the largest source of bank funds.

4. When you withdraw $100 from the Second National Bank,

A. its liabilities increase by $100.
B. its assets decrease by $100.
C. its reserves decrease by $100.
D. only B and C of the above occur

5. The fact that a bank's assets tend to be long-term while its liabilities are short term creates:

A. Interest rate risk.
B. Credit risk.
C. Lower risk for the bank, this is why they follow this strategy.
D. Trading risk.
6. If a bank has $200 million in deposits, the required reserve rate is 10 percent and the bank has $23 million in reserves:

A. The bank is short of required reserves.
B. The bank has excess reserves of $21 million.
C. The bank has excess reserves of $13 million.
D. None of the above.

7. A central bank's purchase of securities made by writing checks on itself will:

A. Decrease the size of its balance sheet.
B. Have no impact at all on the balance sheet.
C. Increase the size of their balance sheet.
D. Only change the composition of its assets.

8. The objectives set for the Fed by Congress are:

A. Very specific, this adds to the Fed's accountability.
B. By design, quite vague, allowing the Fed to really set their goals.
C. Specific regarding inflation, but vague on all other goals.
D. Specific on the growth rate for the economy, but vague on all other objectives

9. A policy of strict interest rate targeting is likely to lead to fluctuations in

   A) reserve requirements
   B) the money supply
   C) the discount rate
   D) the prime rate

10. If the First National Bank has a gap equal to a negative $50 million, then a 5 percentage point increase in interest rates will cause profits to

   A) increase by $25 million.
   B) increase by $2.5 million.
   C) decline by $25 million.
   D) decline by $2.5 million.

11. According to the Taylor rule when real GDP is above its natural level, the nominal Federal Funds rate should be ______, and when inflation is below Target, the nominal Federal Funds rate should be ______.

   A) raised; raised
   B) raised; lowered
   C) lowered; raised
   D) lowered; lowered
12. The Taylor rule is written as \[ FF \text{ rate} = 2.0 + \pi + 0.5 (\pi - 2.0) - 0.5 \text{ (GDP gap)} \], where FF rate is the nominal Federal Funds rate, \( \pi \) is the inflation rate, and the GDP gap is the percentage shortfall of real GDP from its natural level. If inflation is 4 percent and the Output GDP gap is 2 percent, then the real Federal Funds rate is:

A) 2 percent.
B) 5 percent.
C) 6 percent.
D) 8 percent.