

***An Introduction to Financial Markets and
Institutions 2nd edition Burton Test Bank***

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Chapter 2—Money: A Unique Financial Instrument

MULTIPLE CHOICE

1. The unique and most primary function of money is that it serves as a
 - a. unit of account.
 - b. generally acceptable means of payment.
 - c. store of value.
 - d. means for barter.

ANS: B

2. Which of the following is **not** an important characteristic of something that functions as money?
 - a. It is generally accepted to make payments.
 - b. It is durable and scarce.
 - c. It is only issued by the government.
 - d. It is a unit of account and a store of value.

ANS: C

3. Which of the following is an important characteristic of something that functions as money?
 - a. It is generally accepted to make payments.
 - b. It is durable and scarce.
 - c. It is only issued by the government.
 - d. Both a and b are important characteristics of money.

ANS: D

4. A store of value has
 - a. a plethora of discounted goods.
 - b. purchasing power that is retained over time.
 - c. to be issued by government.
 - d. only designer name products.

ANS: B

5. When using the barter system, it is necessary
 - a. to find something to serve as money.
 - b. to engage in either direct or indirect finance.
 - c. that financial markets be unregulated.
 - d. to find a double coincidence of wants.

ANS: D

6. When using the barter system, it is not necessary
 - a. to find something to serve as money.
 - b. to engage in either direct or indirect finance.
 - c. that financial markets be unregulated.
 - d. All of the above are not necessary.

ANS: D

7. The dollar is considered to be which of these?
 - a. the profit standard for economic evaluation

- b. an excellent store of value even in highly inflationary times
- c. the monetary unit of account
- d. an efficient means of payment since the federal government is the only issuer of the dollar

ANS: C

8. Which of these is considered money in the U.S. today?
- a. credit cards
 - b. currency
 - c. gold coins issued by the Treasury
 - d. U.S. Government Securities
 - e. All of the above are considered money in the U.S. today.

ANS: B

9. Which of these is **not** considered money in the U.S. today?
- a. Credit cards
 - b. U.S. Government Securities
 - c. gold coins issued by the Treasury
 - d. None of the above are considered money in the U.S. today.

ANS: D

10. Compared to a regular checking account, money market deposit accounts generally
- a. provide limited check writing.
 - b. pay higher interest.
 - c. require a higher minimum balance.
 - d. All of the above are characteristics of money market deposit accounts.

ANS: D

11. M1 contains which of the following?
- a. Travelers' checks
 - b. checkable deposits
 - c. domestic non-financial debt
 - d. Both a and b are in M1.

ANS: D

12. M1 does **not** contain which of the following?
- a. travelers' checks
 - b. Checkable deposits
 - c. Domestic Nonfinancial debt
 - d. Currency in the hands of the public

ANS: C

13. Money market deposit accounts are now included in
- a. M1
 - b. M2
 - c. currency
 - d. nonfinancial assets

ANS: B

14. If either the cost is high or a substantial amount of time is needed to convert an asset to money, it is usually referred to as which of these?

- a. illiquid
- b. highly liquid
- c. perfectly liquid
- d. near monies

ANS: A

15. "Means of payment" best describes which monetary aggregate?
- a. M1
 - b. M2
 - c. only currency is a means of payment.
 - d. domestic Nonfinancial Deposits

ANS: A

16. Domestic Nonfinancial Deposits does **not** include the debt of financial institutions. This is done to avoid
- a. double counting.
 - b. inefficiencies.
 - c. high debt-GDP ratios for the economy as a whole.
 - d. public outcries about the high level of debt.

ANS: A

17. When credit flows increase, domestic nonfinancial debt
- a. increases.
 - b. decreases.
 - c. is not affected.
 - d. is irrelevant.

ANS: A

18. When credit flows decrease, domestic nonfinancial debt
- a. increases.
 - b. decreases.
 - c. is not affected.
 - d. is irrelevant.

ANS: B

19. A measure of the unpaid claims lenders have against borrowers excluding the debt of financial institutions is called
- a. M1.
 - b. M2.
 - c. money.
 - d. domestic nonfinancial debt.

ANS: D

20. Checkable deposits are included in which monetary aggregate?
- a. M1
 - b. M2
 - c. DNFD
 - d. Both a and b contain checkable deposits.

ANS: D

21. During the late 1980s, which measure gained importance to the Fed?

- a. M1
- b. small time deposits
- c. money market deposit accounts
- d. M2

ANS: D

22. The means by which transactions are completed is called
- a. an automated teller Machine (ATM).
 - b. the payments mechanism.
 - c. Pay Pal.
 - d. verification.

ANS: B

23. Plastic cards that have a certain amount of funds embedded on a magnetic strip are called
- a. carbon-copy written checks.
 - b. debit cards.
 - c. stored-value cards.
 - d. credit cards.

ANS: C

24. Computer terminals used in conjunction with a debit card to electronically transfer funds from checking accounts to third parties are called
- a. payments mechanism.
 - b. ATMs.
 - c. point-of-sale terminals.
 - d. NOW accounts.

ANS: C

25. The intent of an electronic funds transfer system is to
- a. eliminate overdrafts that check writing allows.
 - b. expand written check use.
 - c. strengthen the dollar as a means of payment.
 - d. increase convenience and service to the public and reduce the costs of making payments.

ANS: D

26. A card with a microprocessor chip embedded in it that usually includes a digital signature is called a
- a. smart card.
 - b. debit card.
 - c. card shark.
 - d. stored-value card.

ANS: A

27. The best known and most popular form of electronic transfer of funds is
- a. an automated teller machine (ATM).
 - b. clearinghouse interbank payment system.
 - c. stored-value card.
 - d. checkout lines.

ANS: A

28. If significant costs are required to convert a particular type of asset to money, it is usually referred to as
- a. a checkable deposit.
 - b. a savings account.
 - c. liquid.
 - d. illiquid.

ANS: D

29. Something that serves as a generally acceptable means of payment will, of necessity, function as a
- a. means for barter.
 - b. near-money.
 - c. store of value.
 - d. unit of DNFD.

ANS: C

30. Which is **not** a function of money?
- a. to serve as a store of value
 - b. to serve as a unit of account
 - c. to serve as a means for barter
 - d. to serve as a means of payment

ANS: C

31. The distinguishing factor of money in the financial system is which of the following?
- a. It is issued only by the Fed.
 - b. It is a generally acceptable medium of exchange.
 - c. It is illiquid.
 - d. It has little or no transaction costs.

ANS: B

32. The best definition of a medium of exchange is which of the following?
- a. something that encourages the specialization and division of labor
 - b. something that retains its value if held
 - c. the accounting unit or standardized measure of value in which prices are quoted
 - d. a means of payment; something used in transactions to make payments.

ANS: D

33. The barter system is considered to be which of the following?
- a. highly effective for making transactions
 - b. highly efficient
 - c. costly, cumbersome, and inefficient
 - d. a necessary part of the financial system

ANS: C

34. Compared to a monetary system of exchange, the barter system does which of the following?
- a. increases transaction costs
 - b. lowers the volume of exchange in the economy
 - c. promotes inefficient use of time and energy
 - d. The barter system does all of the above.

ANS: D

35. Barter systems tend to be found most often in which of the following economies?
- a. agricultural economies
 - b. service-oriented economies
 - c. shipping economies
 - d. industrial economies

ANS: A

36. In an economy, money promotes
- a. limited exchanges of goods and services.
 - b. ineffective time management.
 - c. individual consumption.
 - d. efficient production.

ANS: D

37. A unit of account refers to which of the following?
- a. an standardized accounting unit that provides a measure of value
 - b. monetary aggregates
 - c. large time deposits
 - d. money market deposit accounts

ANS: A

38. It is possible with a unit of account to do which of the following?
- a. compare relative values of various goods and services
 - b. keep records about prices and debts
 - c. simplify actual transactions throughout the economy
 - d. It is possible to do all of the above.

ANS: D

39. The development of money facilitates all of the following **except**
- a. exchange.
 - b. specialization and division of labor.
 - c. economic development.
 - d. the double coincidence of wants

ANS: D

40. M2 contains which of the following?
- a. travelers' checks
 - b. government debt
 - c. Domestic nonfinancial debt (DNFD)
 - d. savings bonds

ANS: A

41. Domestic nonfinancial debt is a measure of which of the following?
- a. bankers' acceptances
 - b. outstanding foreign loans
 - c. outstanding loans and debts, accumulated in the present and past excluding the debt of financial institutions
 - d. debt of financial institutions used for relending purposes

ANS: C

42. M1 includes all of the following except
- a. currency.
 - b. checkable deposits.
 - c. money market deposit accounts.
 - d. travelers' checks.

ANS: C

43. Which aggregate is the largest?
- a. M1
 - b. M2
 - c. checkable deposits
 - d. DNFD

ANS: D

44. Which is used as a measure of transactions money?
- a. DNFD
 - b. M2
 - c. M1
 - d. None of the above is a measure of money used in transactions.

ANS: C

45. In the early 1990s, the Fed was most interested in which aggregate for an indicator of the level of economic activity?
- a. U.S. Savings Bonds
 - b. domestic nonfinancial debt (DNFD)
 - c. money market mutual funds
 - d. money market deposit accounts

ANS: B

46. The payment mechanism is how money is
- a. divided among investors.
 - b. used for a measure of wealth.
 - c. used to make payments.
 - d. considered a store of value.

ANS: C

47. The balance in a personal checking account is considered which of these?
- a. capital
 - b. currency
 - c. a nonmonetary financial asset
 - d. money

ANS: D

48. A store of value is which of the following?
- a. a standardized measure of value
 - b. a means of payment
 - c. something which retains its value if held
 - d. something used to make exchanges in a nonmonetary economy

ANS: C

49. Which of the following is **not** included in M1?
- a. small savings
 - b. currency in the hands of the public
 - c. other checkable deposits
 - d. demand deposits at commercial banks

ANS: A

50. Interest earning checking accounts are part of?
- a. small savings accounts
 - b. currency in the hands of the public
 - c. demand deposits at commercial banks
 - d. other checkable deposits at depository institutions

ANS: D

51. When credit flows decline, DNFD
- a. increases.
 - b. declines.
 - c. remains the same.
 - d. declines then increases.

ANS: B

52. Domestic nonfinancial debt (DNFD)
- a. is a measure of current debts accumulated this fiscal year.
 - b. includes total credit market debt owned by domestic spending units.
 - c. is a measure of total credit market debt owned by the domestic nonfinancial sector, excluding government debt.
 - d. includes total outstanding credit market debt owed by the domestic public and private nonfinancial sectors, including government and private debt.

ANS: D

53. How do demand deposits differ from other checkable deposits?
- a. Demand deposits are not as liquid as other checkable deposits.
 - b. Demand deposits earn a higher interest rate than other checkable deposits.
 - c. Demand deposits are non-interest-earning checking deposits while other checkable deposits earn interest..
 - d. There is no difference between demand deposits and other checkable deposits.

ANS: C

54. The difference between other checkable deposits and demand deposits can best be described as follows:
- a. Checkable deposits are a subset of demand deposits.
 - b. Demand deposits are checkable deposits that are non-interest-earning.
 - c. Demand deposits earn interest; checkable deposits do not.
 - d. Demand deposits are part of M1; checkable deposits are not.

ANS: B

55. In recent years, a new currency was introduced. The primary reason was
- a. to make the currency more difficult to counterfeit (technological advances had made counterfeiting easier).

- b. to increase the supply of currency in a growing economy.
- c. to improve the appearance of the U.S. currency which was much less attractive than some foreign currencies.
- d. to recall old dollars that were held in large amounts outside the United States.

ANS: A

56. Which of the following is **true**?
- a. The U.S. money supply as defined by M1 consists of currency in the hands of the public.
 - b. Checks have become more important as a result of technological innovation.
 - c. Checks themselves are not money; the balances in checkable deposits are money.
 - d. The evolution of money and the payments system is often unrelated to the development of the economy.

ANS: C

57. Smart cards differ from stored-value cards in that stored-value cards
- a. have multiple uses and smart cards have a single use.
 - b. Are less sophisticated than smart cards.
 - c. have an embedded computer chip that stores information and may include a digital signature.
 - d. can be used in vending machines.

ANS: B

58. Which of the following is **false**?
- a. Domestic nonfinancial debt (DNFD) is a measure of outstanding loans and debts accumulated in the present and past years.
 - b. DNFD refers to total credit market debt owed by the domestic nonfinancial sector including the U.S. government, state and local governments, private nonfinancial firms, and households.
 - c. Domestic nonfinancial debt excludes the debt of financial institutions-those institutions that borrow solely to re-lend.
 - d. DNFD is the broadest monetary aggregate.

ANS: D

59. Which of the following is **false**?
- a. The payments mechanism is the means by which transactions are completed; how money is transferred among transactors.
 - b. When you write a check at the grocers, dollars are then credited (added) to the deposit account of the grocer, and debited (removed) from your account.
 - c. The balances in checkable deposits are money.
 - d. Technological advances are making checks much more important as a means of payment than in the past.

ANS: D

60. An electronic funds transfer system
- a. makes payments to third parties in response to electronic instructions rather than instructions written on a paper check.
 - b. eliminates the need for deposit accounts.
 - c. is an inefficient way of transferring funds.
 - d. increases the costs of making payments at point of sales terminals.

ANS: A

61. Which of the following is most liquid?
- a. a rare oil painting
 - b. my house that has increased in value tremendously in recent years
 - c. my checkable deposit
 - d. my pension fund

ANS: C

62. The rental rate that is associated with borrowing or lending money is called
- a. the exchange rate.
 - b. the rate of depreciation.
 - c. the rate of inflation.
 - d. the interest rate.

ANS: D

63. The specific amount of money that net spenders wish to hold at a specific interest rate is the
- a. quantity supplied of money.
 - b. quantity demanded of money.
 - c. demand for money.
 - d. supply of money.

ANS: B

64. *Ceteris paribus*, the relationship between the quantity of money demanded and the interest rate is
- a. direct.
 - b. positive
 - c. inverse.
 - d. constant over time

ANS: C

65. The *ceteris paribus* assumption refers to which of these?
- a. holding all other factors constant
 - b. assuming economic variables are always fluctuating
 - c. assuming economic theory never changes
 - d. holding one variable constant and allowing all others to vary

ANS: A

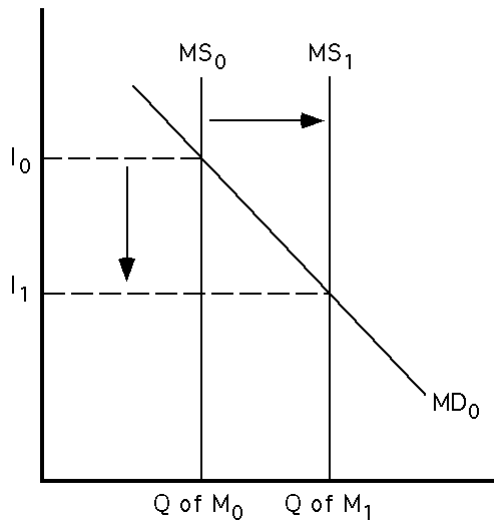
66. The demand for money is primarily determined by
- a. government.
 - b. spending plans and the need to pay for purchases.
 - c. the residual claim on assets.
 - d. taxation.

ANS: B

67. An increase in income will generally raise
- a. the purchases of households.
 - b. the purchases of firms.
 - c. the demand for money at a given interest rate.
 - d. all of the above.

ANS: D

Figure 3-1



68. Which of the following statements best describes Figure 3-1?
- As the Fed increases reserves and with them the money supply, the interest rate falls.
 - As the Fed decreases available reserves and decreases money supply, the interest rate falls.
 - As consumer incomes rise, consumers are more willing to spend money. As a result, they increase their demand for money and the interest rate falls.
 - As the Fed increases the required reserve ratio, the money supply increases and the interest rate falls.

ANS: A

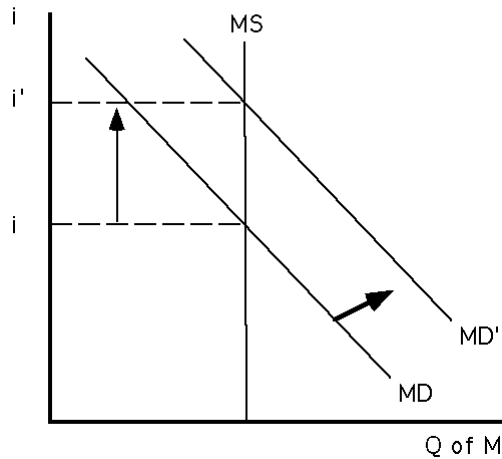
69. In Figure 3-1, which of the following is **true**?
- Money demand is vertical.
 - Money supply is vertical.
 - As the interest rate increases, the quantity demanded of money also increases.
 - As the interest rate decreases, the quantity demanded of money also decreases.

ANS: B

70. The decrease in the interest rate shown in Figure 3-1 could have been caused by
- an increase in consumer income.
 - the Fed increasing the money supply.
 - the Congress decreasing taxes.
 - an increase in the required reserve ratio.

ANS: B

Figure 3-2



71. Which of the following statements best describes Figure 3-2?
- As the Fed increases reserves and with them the money supply, the interest rate tends to increase.
 - As the Fed decreases available reserves and decreases the money supply, the interest rate tends to increase.
 - As consumer incomes fall, consumers become more frugal. As a result they increase their demand for money and the interest rate increases.
 - An increase in household incomes is likely to increase the demand for money. As money demand increases, the interest rate rises.

ANS: D

72. What may have *caused* the changes illustrated in Figure 3-2?
- A decrease in the required reserve ratio
 - A decrease in interest
 - An increase in consumer incomes
 - An increase in interest rates

ANS: C

73. In Figure 3-2,
- an increase in interest rates causes money demand to increase.
 - an increase in money demand causes interest rates to increase.
 - a decrease in the money supply causes the interest rate to increase.
 - an increase in the interest rate causes money supply to increase.

ANS: B

74. Graphically, an increase in income would tend to
- shift the demand curve for money to the left.
 - shift the demand curve for money to the right.
 - have no effect on the demand curve for money.
 - cause a movement along the demand curve for money.

ANS: B

ANS: D

75. If a commercial bank has checkable deposit liabilities of \$50,000 and the required reserve ratio is set at 12%, the commercial bank must hold how much in reserves assets?
- a. None. It is not mandatory to hold reserves.
 - b. \$3,000
 - c. \$6,000
 - d. \$44,000

ANS: C

76. If the interest rate is above the equilibrium rate, there is an
- a. excess demand for money and downward pressure on the interest rate.
 - b. excess quantity supplied of money and upward pressure on the interest rate.
 - c. excess supply of money and upward pressure on the interest rate.
 - d. excess quantity supplied of money and downward pressure on the interest rate.

ANS: D

77. If the interest rate is below the equilibrium point, there is an
- a. excess supply of money and rising interest rates.
 - b. excess quantity demanded of money and rising interest rates.
 - c. excess demand of money and falling interest rates.
 - d. excess quantity demanded and falling interest rates.

ANS: B

78. Which of the following is **false**?
- a. The quantity supplied of money is the amount that will be supplied at a specific interest rate.
 - b. The supply curve of money is vertical.
 - c. The supply of money is directly related to the interest rate; that is, when the interest rate increases, the supply of money increases.
 - d. When the Fed raises the required reserve ratio, the supply of money decreases.

ANS: C

79. As the interest rate falls, the demand for money
- a. remains the same.
 - b. Increases.
 - c. Decreases.
 - d. increases causing the quantity supplied of money to increase.

ANS: A

80. Which of the following is **false**?
- a. Depository institutions must hold reserve assets equal to a certain fraction of deposit liabilities-called the required reserve ratio-which is set by the Fed.
 - b. The Fed influences the amount of cash assets outstanding and thus the amount available for reserves.
 - c. The Fed has significant influence over the money supply.
 - d. The required reserve ratio is set by the president of the United States.

ANS: D

81. Which of the following is **false**?
- a. The interest rate is determined by the supply of and demand for money.

- b. Equilibrium occurs at the interest rate where the quantity demanded of money is equal to the quantity supplied.
- c. Changes in the supply of or demand for money (shifts of the supply or demand curves) affect the interest rate.
- d. *Ceteris paribus*, if quantity demanded increases, the interest rate rises and vice versa. *Ceteris paribus*, if quantity supplied increases, the interest rate falls and vice versa.

ANS: D

82. If the Fed increases the money supply, *ceteris paribus*, the interest rate will
- a. fall.
 - b. rise.
 - c. remain the same.
 - d. It is impossible to determine what will happen.

ANS: A

83. *Ceteris paribus*, which of the following would not increase the demand for money?
- a. Spending plans for households increase
 - b. Income increases
 - c. Interest rates decrease
 - d. The need to pay for purchases increases

ANS: C

84. *Ceteris paribus*, which of the following would not increase the supply of money?
- a. The Fed lowers the reserve requirement ratio.
 - b. The Fed increases cash assets available for reserves.
 - c. The demand for money increases.
 - d. Banks increase loans.

ANS: C

85. If a commercial bank has checkable deposits of \$150,000 and the required reserve ratio is set at 10%, the commercial bank must hold how much in reserves?
- a. None. It is not mandatory to hold reserves.
 - b. \$10,000
 - c. \$15,000
 - d. \$150,000

ANS: C

86. The required reserve ratio is set by which of the following?
- a. Congress
 - b. state governors
 - c. the Fed
 - d. the President's economic advisor

ANS: C

87. Reserves may be held in the form of
- a. vault cash.
 - b. reserve deposit accounts at the Fed.
 - c. U.S. Savings Bonds.
 - d. Both a and b, but not c.

ANS: D

88. Graphically, an increase in the money supply would
- shift the quantity supplied of money downward.
 - slide the quantity supplied of money upward.
 - shift the money supply curve to the right.
 - shift the money supply curve to the left.

ANS: C

89. Graphically, an injection of reserves into the banking system
- shifts the money supply curve to the left.
 - shifts the money supply curve to the right.
 - shifts the quantity supplied of money upward.
 - shifts the quantity supplied of money downward.

ANS: B

90. Graphically, an increase in the required reserve ratio would
- shift the money supply curve to the left.
 - shift the money supply curve to the right.
 - shift the quantity supplied of money upward.
 - shift the quantity supplied of money downward.

ANS: A

91. Graphically, a decrease in the provision of reserves would
- shift the quantity supplied of money upward.
 - shift the quantity supplied of money downward.
 - shift the money supply curve to the left.
 - shift the money supply curve to the right.

ANS: C

92. Graphically, a decrease in the required reserve ratio would
- shift the quantity demanded of money upward.
 - shift the quantity supplied of money downward.
 - shift the money supply curve to the left.
 - shift the money supply curve to the right.

ANS: D

93. Graphically, the supply curve for money is
- downward sloping.
 - upward sloping.
 - vertical.
 - horizontal.

ANS: C

94. Equilibrium occurs at the interest rate where
- supply equals demand.
 - supply is less than demand.
 - quantity supplied equals quantity demanded.
 - quantity supplied is more than quantity demanded.

ANS: C

95. If the demand for money increases ceteris paribus, interest rates will
- fall.
 - remain the same.
 - fall, and then stabilize.
 - rise.

ANS: D

96. If the supply of money falls ceteris paribus, interest rates will
- fall.
 - rise.
 - remain the same.
 - fall, and then stabilize.

ANS: B

97. If the demand for money decreases ceteris paribus, interest rates will
- fall.
 - rise.
 - rise, and then stabilize.
 - remain the same.

ANS: A

98. If the supply of money increases ceteris paribus, interest rates will
- rise.
 - fall.
 - rise, and then stabilize.
 - remain the same.

ANS: B

99. If there is a rightward shift in the demand curve for money, interest rates will
- fall.
 - rise.
 - remain the same.
 - fall, and then stabilize.

ANS: B

100. If there is a leftward shift in the supply curve for money, interest rates will
- remain the same.
 - fall, and then stabilize.
 - rise.
 - fall.

ANS: C

101. If there is a leftward shift in the demand curve for money, interest rates will
- fall.
 - remain the same.
 - rise, and then stabilize.
 - rise.

ANS: A

102. If there is a rightward shift in the money supply curve, interest rates will
- rise.
 - remain the same.
 - rise, and then stabilize.
 - fall.

ANS: D

103. If there is a rightward shift in the money supply curve, the
- demand for money will increase.
 - demand for money will decrease.
 - quantity demanded of money will increase.
 - quantity demanded of money will decrease.

ANS: C

104. If there is a rightward shift in the demand curve for money,
- the money supply will increase.
 - the money supply will decrease.
 - the quantity supplied of money will remain the same.
 - the quantity supplied of money will decrease.

ANS: C

105. If there is a leftward shift in the money supply curve
- demand for money will increase.
 - demand for money will decrease.
 - quantity demanded of money will increase.
 - quantity demanded of money will decrease.

ANS: D

106. *Ceteris paribus*, increases in reserves will lead to which of the following?
- Increases in the interest rate and increases in money
 - Increases in the interest rate and decreases in money
 - Decreases in the interest rate and increases in money
 - Decreases in the interest rate and decreases in money

ANS: C

107. Graphically, the demand curve for money is
- upward sloping.
 - downward sloping.
 - perfectly vertical.
 - perfectly horizontal.

ANS: B

108. A rightward shift in the demand curve for money means that
- the demand for money has increased.
 - the demand for money has decreased.
 - the quantity for money demanded has increased.
 - the quantity for money demanded has decreased.

ANS: A

109. A leftward shift in the demand curve for money means that
- a. the quantity for money demanded has increased.
 - b. the quantity for money demanded has decreased.
 - c. the demand for money has increased.
 - d. the demand for money has decreased.

ANS: D

110. A rightward shift of the supply curve of money means that
- a. the supply of money has increased.
 - b. the supply of money has decreased.
 - c. the demand for money has increased.
 - d. the quantity supplied of money has decreased.

ANS: A

111. A leftward shift of the supply curve of money illustrates that the
- a. quantity supplied of money has increased.
 - b. quantity supplied of money has decreased.
 - c. supply of money has increased.
 - d. supply of money has decreased.

ANS: D

112. Which of the following is **false**?
- a. The Fed sets the required reserve ratio that determines the maximum amount of money that banks can lend.
 - b. Depository institutions must hold reserve assets equal to a fraction of deposit liabilities; that fraction is called the required reserve ratio.
 - c. The Fed controls the amount of cash assets available for reserves.
 - d. The Fed must consult with depository institutions before setting the required reserve ratio.

ANS: D

113. *Ceteris paribus*, as interest rates rise, the quantity demanded of money
- a. decreases.
 - b. increases.
 - c. remains the same.
 - d. increases at decreasing rates.

ANS: A

114. *Ceteris paribus*, as interest rates decline, the quantity demanded of money
- a. falls.
 - b. decreases at an increasing rate.
 - c. increases.
 - d. remains the same.

ANS: C

115. The demand for money is directly related to which of these?
- a. fortune
 - b. income
 - c. the interest rate

d. all of the above

ANS: B

116. An increase in income will generally raise
- a. the purchases of households and firms.
 - b. the spending plans of households and firms.
 - c. both a and b.
 - d. none of the above.

ANS: C