

BPE MAC1 Macroeconomics 1 – Spring Semester 2011

**Tutorial Session 6 - 01.04.2011, 11:05-11:50 a.m.**

**Multiple Choice**

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

- \_\_\_ 1. Outright open market operations refers to
- the central bank buying or selling outright a non-monetary asset in a transaction with a bank.
  - the government's Finance Department (in the UK the Treasury) buying or selling outright a non-monetary asset in a transaction with a bank.
  - a sale and repurchase agreement between the central bank and a bank.
  - adjustments to interest rates by the central bank.
- \_\_\_ 2. Suppose the Bank of England sells a £1,000 government bond to you. If you pay for the bond by writing a cheque for £1,000 drawn on your current account, what is the effect on the economy's money supply?
- The effect is unpredictable.
  - There will be no change.
  - It will increase.
  - It will decrease.
- \_\_\_ 3. Given an initial deposit of €5,000 and a reserve ratio of 25%, the amount of money potentially created by a fractional reserve banking system is
- €15,000.
  - €20,000.
  - €25,000.
  - €10,000.
- \_\_\_ 4. When the money multiplier is 7, a €3,000 increase in reserves could lead to a \_\_\_\_\_ increase in money supply.
- €3,000
  - €9,000
  - €15,000
  - €21,000
- \_\_\_ 5. If Gerard moves a deposit of €10,000 from Banca Solida, which operates with a 20% reserve ratio, to Gung-Ho Bank, which operates with 10% reserve ratio, then what would you expect to happen to the economy's money supply?
- It will decrease by €50,000.
  - It will be unchanged.
  - It will increase by €50,000.
  - It will increase by €100,000.
- \_\_\_ 6. If real output in an economy is 1,000 units of goods per year, the money supply is €300, and each euro is spent 3 times per year, then the average price of goods is
- €0.90 per unit.
  - €1.11 per unit.
  - €1.50 per unit.
  - €1.33 per unit.

- \_\_\_\_\_ 7. If the nominal interest rate is 10%, the expected rate of inflation is 7%, and the growth rate of the money supply is 6%, then the real interest rate is
- 4%.
  - 3%.
  - 3%.
  - 4%.
- \_\_\_\_\_ 8. Unanticipated inflation helps
- investors at the expense of savers.
  - publicly quoted companies at the expense of private partnerships.
  - borrowers at the expense of lenders.
  - taxpayers at the expense of government.
- \_\_\_\_\_ 9. Some economists feel inflation is bad
- because it reduces real GDP so much.
  - only if it is persistent.
  - because it redistributes income arbitrarily.
  - only if it is anticipated.
- \_\_\_\_\_ 10. Ingrid spends the entire week before Christmas shopping. However, inflation is so high in her community that she must make three trips to the bank each day so as not to lose too much purchasing power. These costs of inflation are called
- menu costs.
  - shoeleather costs.
  - the inflation fallacy.
  - redistribution costs.

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**Answer Section**

**MULTIPLE CHOICE**

1. ANS: A  
the central bank buying or selling outright a non-monetary asset in a transaction with a bank.

PTS: 1

2. ANS: D  
It will decrease.

PTS: 1

3. ANS: A  
€15,000.

PTS: 1

4. ANS: D  
€21,000

PTS: 1

5. ANS: C  
It will increase by €50,000.

PTS: 1

6. ANS: A  
€0.90 per unit.

PTS: 1

7. ANS: C  
3%.

PTS: 1

8. ANS: C  
borrowers at the expense of lenders.

PTS: 1

9. ANS: C  
because it redistributes income arbitrarily.

PTS: 1

10. ANS: B  
shoeleather costs.

PTS: 1