

Answer Key

Testname: PRACTICE3

- 1) A
- 2) A
- 3) A
- 4) D
- 5) A
- 6) TRUE
- 7) TRUE
- 8) FALSE
- 9) TRUE
- 10) FALSE
- 11) The three tools are open market operations, the purchase and sale of government securities; discount policy, controlling the price and quantity of discount loans to banks; and reserve requirements, setting the percentage of deposits that banks must hold in reserve. Open market operations and the discount rate affect the monetary base, and reserve requirements affect the money multiplier.
- 12) In the figure below, when the money supply is held constant, increases in money demand result in increased interest rates, and decreases in money demand result in fall interest rates. The target money supply is the vertical money supply line. Since fluctuations in demand do not cause monetary policy actions, the result is the interest rate fluctuations shown in the graph.

