Name:
Weekly Review 10 – Due Thursday, 11/11
Bring to class, having attempted as much as possible
We will grade in class
Turn in corrected assignment to Blackboard after class
All questions worth one point unless otherwise noted

1. (2 points) What are the two main functions of the federal reserve? (choose 2)

    a. Fueling economic growth
    b. Promoting stable prices
    c. Staying out of the way of business
    d. Maintaining maximum employment

2. If labor from all industries organizes for higher wages and then businesses raise prices to dover the increased labor cost, this is called:

    a. demand-pull inflation
    b. hyperinflation
    c. disinflation
    d. cost-push inflation

3. An “easing” of monetary policy refers to:

    a. The repayment of loans by business
    b. The Fed creating incentives to lower interest rates
    c. Contractionary monetary policy
    d. A tightening of monetary policy

4. During a recession, the central bank is most likely to:

    a. Raise the interest rate
    b. Raise the reserve requirement
    c. Use expansionary open market operations
    d. Buy up mortgages

5. The most likely economic situation in which a government would implement contractionary fiscal policy is …

    a. government budget surpluses.
    b. high unemployment.
    c. low unemployment.
    d. high inflation.

6. Which of the following describes expansionary “open market operations”?

   a. The Fed increases interest rates and then prints more money so that borrowers will be able to pay the higher rates.
   b. The Fed sells government bonds, which increases aggregate demand and requires more money to be printed.
   c. The Fed buys government bonds from banks, which increases the banks’ reserves with the Fed and allows them to make new loans.
   d. The Fed increases the reserve requirements of bank and thus banks must obtain additional funds from the Fed.

7. A liquidity trap refers to when…

   a. interest rates cannot rise enough to prevent inflation.
   b. a central bank runs out of funds to lend to private banks.
   c. a central bank cannot lower reserve requirements any further.
   d. interest rates cannot lower further but investment is not increasing.

8. If interest rates are lower than inflation rates then,
   a. The Fed is trying to bring on a recession
   b. The nation must be experiencing hyper inflation
   c. Money in savings is decreasing in purchasing power
   d. The economy is heating up

9. What does Classical monetary theory state will happen with an increase in the money supply?

   a. Prices will fall and GDP will rise
   b. Prices and GDP will both rise
   c. Prices will rise and GDP will remain the same
   d. Prices will rise and GDP will fall