5 Points Possible
Due Date: Monday, April 28 at 4:30 PM in my mailbox
OR Monday, April 28 at the beginning of any discussion section

May the Force be with: _____
Discussion Section Time: _____

1. (1 point) Multiple choice. Determine whether the following is considered standard open market operations, quantitative easing, or neither. Circle your answer:

    a. The Fed buys $500 Billion worth of thirty-year (long term) Treasury Securities

        i. Open market operations

        ii. Quantitative easing

        iii. Neither

2. (1 point) Multiple choice. Assuming a required reserve ratio of 5% and that the bank keeps no excess reserves what is the value of government securities the Fed must purchase if it wants to increase the money supply by $2 Million?

    a. $200,000

    b. $100,000

    c. $2,000,000

    d. $500,000

3. (1 point) Multiple choice. Use the following information to calculate the Marginal Propensity to Consume (MPC) and the change in income:

    Spending multiplier: 4
    Change in government spending: +$300

    a. MPC: 0.75
    Change in Income: -$1,200

    b. MPC: 0.75
    Change in Income: +$1,200

    c. MPC: 0.5
    Change in Income: -$1,200

    d. MPC: 0.5
    Change in Income: +$1,200

4. (1 point) Multiple choice. Suppose the loanable funds market is current in equilibrium with a 2% interest rate and an equilibrium quantity of loanable funds of $500 Million. Suppose that the government wants to increase its spending by $180 Million (and that it finances this spending by borrowing money). Due to this change, the equilibrium interest rate becomes 5% and the equilibrium quantity of loanable funds becomes $540 Million.

   Assume that there is complete crowding out. What happens to consumption and investment in response to the government's action?

   a. Consumption: -$40 Million
      Investment: -$140 Million

   b. Consumption: -$140 Million
      Investment: -$40 Million

   c. Consumption: -$90 Million
      Investment: -$90 Million

   d. Consumption: -$180 Million
      Investment: -$40 Million

5. (1 point) Multiple choice. A bank will often hold government securities as an asset. If a bank were to sell $100,000 in government securities to an individual who paid for the bond in cash and the bank placed this cash in their vault, by how much would the money supply change as a result?

   a. There would be no change to the money supply.

   b. It would increase by $100,000.

   c. It would decrease by $100,000.

   d. It would increase by $100,000 multiplied by the reciprocal of the required reserve ratio.

   e. It would decrease by $100,000 multiplied by the reciprocal of the required reserve ratio.