Monetary Policy

1. The process by which the Federal Reserve controls the supply, availability, and cost of money in order to keep the economy stable is

- A. Fiscal Policy
- B. Monetary Policy
- C. The Interest Rate
- D. The Discount Rate

2. When the Federal Reserve sells government securities on the open market, what effect does this action have on the nation's money supply and interest rates?

- A. Money Supply – Decreases/Interest Rates – Increase
- B. Money Supply – Increases/Interest Rates – Increase
- C. Money Supply – Decreases/Interest Rates – Decrease
- D. Money Supply – Increases/Interest Rates - Decrease

3. The Federal Reserve wants to *increase* the money supply in the United States. What is the Federal Reserve likely to do to accomplish this?

- A. Buy Securities on the Open Market
- B. Sell Securities on the Open Market
- C. Increase the Reserve Requirement for banks
- D. Decrease Taxes

4. The Federal Reserve, also called the Fed, is the central bank of the United States. The Federal Reserve consists of 12 regional Federal Reserve banks and a central Board of Governors.

- What would MOST LIKELY happen if the Federal Reserve decided to increase the Reserve Requirement in banks?
- A. The amount of federal taxes people owe would decrease.
- B. The amount of federal taxes people owe would increase.
- C. The amount of money circulating in the economy would decrease.
- D. The amount of money circulating in the economy would increase.

5. What is another name for “easy money” policy?

- A. Contractionary monetary policy
- B. Expansionary monetary policy
- C. Contractionary fiscal policy
- D. Expansionary fiscal policy

Answers:

- 1. B
- 2. A
- 3. A
- 4. C
- 5. B