

- 1) If wealth decreases, the demand for common stocks _____ and that of long-term bonds _____.
- A) increases; decreases B) decreases; decreases
C) increases; increases D) decreases; increases
- 2) A decrease in wealth
- A) reduces the demand for housing.
B) has no effect on bond demand.
C) increases the demand for stocks.
D) increases the demand for housing.
E) increases the demand for bonds.
- 3) If the expected return on LM stock increases from 3 to 6 percent, and the return on OP stock increases from 6 to 12 percent, the expected return of holding LM stock _____ relative to OP stock and the demand for LM stock _____.
- A) rises; falls B) falls; falls C) rises; rises D) falls; rises
- 4) If the expected return on ABC stock rises from 5 to 10 percent and the expected return on CBS stock is unchanged, then the expected return of holding CBS stock _____ relative to ABC stock and the demand for CBS stock _____.
- A) rises; rises B) rises; falls C) falls; rises D) falls; falls
- 5) If the expected return on ABC stock is unchanged and the expected return on CBS stock falls from 10 to 5 percent, then the expected return of holding CBS stock _____ relative to ABC stock and the demand for ABC stock _____.
- A) rises; rises B) rises; falls C) falls; rises D) falls; falls
- 6) If the expected return on U.S. Treasury bonds rises from 5 to 10 percent and the expected return on GE stock rises from 7 to 8 percent, then the expected return of holding GE stock _____ relative to U.S. Treasury bonds and the demand for GE stock _____.
- A) rises; rises B) rises; falls C) falls; rises D) falls; falls
- 7) If housing prices are suddenly expected to shoot up, then, other things equal, the demand for houses will _____ and that of Treasury bills will _____.
- A) increase; increase B) increase; decrease C) decrease; decrease D) decrease; increase
- 8) If interest rates on Treasury bonds are suddenly expected to shoot up, then, other things equal, the demand for houses will _____ and that of Treasury bonds will _____.
- A) increase; increase B) increase; decrease C) decrease; decrease D) decrease; increase
- 9) If interest rates on Treasury bonds are suddenly expected to drop, then, other things equal, the demand for houses will _____ and that of Treasury bonds will _____.
- A) increase; increase B) increase; decrease C) decrease; decrease D) decrease; increase

- 10) When people begin to expect a large stock market decline, the demand curve for bonds shifts to the _____ and the interest rate _____.
- A) left; falls B) right; rises C) left; rises D) right; falls
- 11) When people begin to expect a run up in large stock market, the demand curve for bonds shifts to the _____ and the interest rate _____.
- A) right; falls B) left; falls C) right; rises D) left; rises
- 12) If the expected return on RST stock declines from 12 to 9 percent and the expected return on XYZ stock declines from 8 to 7 percent, then the expected return of holding RST stock _____ relative to XYZ stock and demand for XYZ stock _____.
- A) falls; rises B) falls; falls C) rises; falls D) rises; rises
- 13) If the expected return on U.S. Treasury bonds falls from 8 to 7 percent and the expected return on corporate bonds falls from 10 to 8 percent, then the expected return of corporate bonds _____ relative to U.S. Treasury bonds and the demand for corporate bonds _____.
- A) falls; rises B) falls; falls C) rises; rises D) rises; falls
- 14) Holding the expected return on bonds constant, a decrease in the expected return on stocks would _____ the demand for bonds, shifting the demand curve to the _____.
- A) decrease; right B) increase; left C) increase; right D) decrease; left
- 15) As the price of a bond falls and the expected return _____, bonds become _____ attractive to investors.
- A) falls; less B) rises; more C) rises; less D) falls; more
- 16) As the price of a bond _____ and the expected return _____, bonds become more attractive to investors and the quantity demanded rises.
- A) falls; falls B) rises; rises C) falls; rises D) rises; falls
- 17) If interest rates are expected to rise in the future, the demand for long-term bonds _____ and the demand curve shifts to the _____.
- A) falls; right B) falls; left C) rises; left D) rises; right
- 18) The reduction of brokerage commissions for trading common stocks that occurred in 1975 caused the demand for bonds to _____ and the demand curve to shift to the _____.
- A) fall, left B) rise; right C) rise; left D) fall; right
- 19) If fluctuations in interest rates become smaller, then, other things equal, the demand for stocks _____ and the demand for long-term bonds _____.
- A) increases; increases B) increases; decreases
C) decreases; decreases D) decreases; increases

- 20) If the price of gold becomes less volatile, then, other things equal, the demand for stocks will _____ and the demand for antiques will _____.
- A) increase; increase B) increase; decrease C) decrease; decrease D) decrease; increase
- 21) If fluctuations in interest rates become greater, then, other things equal, the demand for common stocks _____ and that of long-term bonds _____.
- A) increases; increases B) increases; decreases
C) decreases; decreases D) decreases; increases
- 22) If the price of real estate becomes less volatile, then, other things equal, the demand for stocks will _____ and that of antiques will _____.
- A) increase; increase B) increase; decrease C) decrease; decrease D) decrease; increase
- 23) When stock prices become more volatile, the demand curve for bonds shifts to the _____ and the interest rate _____.
- A) right; rises B) left; rises C) left; falls D) right; falls
- 24) All else the same, an increase in the volatility of the stock market causes the demand for bonds to _____ and the demand curve to shift to the _____.
- A) fall; right B) fall; left C) rise; left D) rise; right
- 25) When bond interest rates become less volatile, the demand for bonds _____ and the interest rate _____.
- A) decreases; rises B) increases; falls C) decreases; falls D) increases; rises
- 26) An increase in the riskiness of bonds relative to alternative assets causes the demand for bonds to _____ and the demand curve to shift to the _____.
- A) fall; right B) rise; left C) rise; right D) fall; left
- 27) An increase in the riskiness of alternative assets relative to bonds causes the demand for bonds to _____ and the demand curve to shift to the _____.
- A) fall; left B) fall; right C) rise; right D) rise; left
- 28) When bonds become more widely traded, and as a consequence the market becomes more liquid, the demand curve for bonds shifts to the _____ and the interest rate _____.
- A) left; falls B) right; rises C) left; rises D) right; falls
- 29) An increase in the liquidity of bonds results in a _____ in demand for bonds and the demand curve shifts to the _____.
- A) rise; left B) fall; right C) rise; right D) fall; left

- 30) An increase in the expected rate of inflation will _____ the expected return on bonds relative to the that on _____ assets, and shift the _____ curve to the left.
- A) reduce; financial; demand
B) raise; real; supply
C) raise; financial; supply
D) reduce; real; demand
- 31) The demand curve for bonds has the usual downward slope, indicating that at _____ prices of the bond, everything else equal, the _____ is higher.
- A) higher; demand
B) lower; quantity demanded
C) lower; demand
D) higher; quantity demanded
- 32) Factors that increase the demand for bonds include
- A) an decrease in the liquidity of common stocks.
B) an increase in the inflation rate.
C) a decrease in the volatility of stock prices.
D) all of the above.
- 33) Factors that increase the demand for bonds include
- A) an increase in the liquidity of stocks.
B) a decrease in the volatility of stock prices.
C) a decrease in the inflation rate.
D) all of the above.
E) none of the above.
- 34) Factors that increase the demand for bonds include
- A) a decrease in the inflation rate.
B) an increase in the volatility of stock prices.
C) an increase in the liquidity of stocks.
D) all of the above.
E) only A and B of the above.
- 35) Factors that increase the demand for bonds include
- A) a decrease in the inflation rate.
B) a decrease in the expected returns on stocks.
C) an increase in the volatility of stock prices.
D) all of the above.
E) only A and B of the above.
- 36) Factors that increase the demand for bonds include
- A) an increase in the inflation rate.
B) an increase in the expected returns on stocks.
C) an increase in the volatility of stock prices.
D) only B and C of the above.

- 37) Factors that decrease the demand for bonds include
- A) an increase in the expected returns on stocks.
 - B) a decrease in the inflation rate.
 - C) an increase in the volatility of stock prices.
 - D) all of the above.
- 38) Factors that decrease the demand for bonds include
- A) a decrease in the expected returns on stocks.
 - B) an increase in the volatility of stock prices.
 - C) a decrease in the inflation rate.
 - D) a decrease in the riskiness of stocks.
- 39) Factors that decrease the demand for bonds include
- A) an increase in the liquidity of stocks.
 - B) an increase in the inflation rate.
 - C) a decrease in the volatility of stock prices.
 - D) all of the above.
 - E) none of the above.
- 40) Factors that decrease the demand for bonds include
- A) an increase in the liquidity of stocks.
 - B) a decrease in the volatility of stock prices.
 - C) a decrease in the inflation rate.
 - D) all of the above.
 - E) only A and B of the above.
- 41) Factors that decrease the demand for bonds include
- A) a decrease in the inflation rate.
 - B) an increase in the liquidity of stocks.
 - C) an increase in the volatility of stock prices.
 - D) all of the above.
 - E) only A and B of the above.
- 42) You would be more willing to purchase U.S. Treasury bonds, other things equal, if
- A) you inherit \$1 million from your Uncle Harry.
 - B) you expect interest rates to fall.
 - C) gold becomes more liquid.
 - D) any of the above occurs.
 - E) either A or B of the above occurs.

- 43) You would be less willing to purchase U.S. Treasury bonds, other things equal, if
- A) you expect interest rates to fall.
 - B) you inherit \$1 million from your Uncle Harry.
 - C) gold becomes more liquid.
 - D) any of the above occurs.
- 44) You would be more willing to buy AT&T bonds (holding everything else constant) if
- A) the brokerage commissions on bond sales become cheaper.
 - B) you expected jewelry to appreciate sharply in value.
 - C) interest rates are expected to rise.
 - D) you had suffered big losses in the stock market.
 - E) none of the above.
- 45) You would be less willing to buy AT&T bonds (holding everything else constant) if
- A) you expected jewelry to appreciate sharply in value.
 - B) the brokerage commissions on bond sales rise.
 - C) interest rates are expected to rise.
 - D) any of the above occurs.
 - E) either A or C of the above occurs.
- 46) Holding everything else constant,
- A) if stock ABC's risk rises relative to that of alternative assets, the demand for stock ABC will fall.
 - B) the lower the expected return to stock ABC relative to alternative assets, the greater will be the demand for stock ABC.
 - C) the less liquid is stock ABC, relative to alternative assets, the greater will be the demand for stock ABC.
 - D) only A and B of the above.
- 47) Holding everything else constant,
- A) the lower the expected return to asset A relative to alternative assets, the greater will be the demand for asset A.
 - B) the more liquid is asset A, relative to alternative assets, the greater will be the demand for asset A.
 - C) if asset A's risk rises relative to that of alternative assets, the demand will increase for asset A.
 - D) only A and B of the above.
- 48) In a recession when income and wealth are falling, the demand for bonds _____ and the demand curve shifts to the _____.
- A) rises; left
 - B) falls; right
 - C) rises; right
 - D) falls; left
- 49) In an expanding economy with growing wealth, the demand for bonds _____ and the demand curve for bonds shifts to the _____.
- A) rises; right
 - B) rises; left
 - C) falls; right
 - D) falls; left

- 50) The supply curve for bonds has the usual upward slope, indicating that as the price _____, ceteris paribus, the _____ increases.
- A) falls; supply
B) rises; supply
C) falls; quantity supplied
D) rises; quantity supplied
- 51) Factors that can cause the supply curve for bonds to shift to the right include
- A) an increase in expected inflation.
B) an increase in government deficits.
C) an expansion in overall economic activity.
D) all of the above.
E) only A and B of the above.
- 52) Factors that can cause the supply curve for bonds to shift to the right include
- A) an expansion in overall economic activity.
B) an increase in expected inflation.
C) a decrease in government deficits.
D) all of the above.
E) only A and B of the above.
- 53) Factors that can cause the supply curve for bonds to shift to the right include
- A) a decrease in government deficits.
B) an expansion in overall economic activity.
C) a decrease in expected inflation.
D) all of the above.
E) only A and B of the above.
- 54) Factors that can cause the supply curve for bonds to shift to the left include
- A) a decrease in expected inflation.
B) an expansion in overall economic activity.
C) an increase in government deficits.
D) only A and C of the above.
- 55) During an economic expansion, the supply of bonds _____ and the supply curve shifts to the _____.
- A) increases; left
B) increases; right
C) decreases; left
D) decreases; right
- 56) During a recession, the supply of bonds _____ and the supply curve shifts to the _____.
- A) increases; left
B) increases; right
C) decreases; left
D) decreases; right
- 57) An increase in expected inflation causes the supply of bonds to _____ and the supply curve to shift to the _____.
- A) increase; left
B) increase; right
C) decrease; left
D) decrease; right

- 58) Higher government deficits _____ the supply of bonds and shift the supply curve to the _____.
- A) increase; left B) increase; right C) decrease; left D) decrease; right
- 59) When the inflation rate is expected to increase, the expected return on bonds relative to real assets falls for any given interest rate; the demand for bonds _____ and the demand curve shifts to the _____.
- A) rises; left B) rises; right C) falls; right D) falls; left
- 60) When the inflation rate is expected to increase, the real cost of borrowing declines at any given interest rate; the supply of bonds _____ increases and the supply curve shifts to the _____.
- A) decreases; right B) increases; left C) decreases; left D) increases; right
- 61) When the inflation rate is expected to increase, the expected return on bonds relative to real assets falls for any given interest rate; the _____ for bonds falls and the _____ curve shifts to the left.
- A) supply; demand B) demand; supply C) supply; supply D) demand; demand
- 62) When the inflation rate is expected to increase, the real cost of borrowing declines at any given interest rate; the _____ of bonds increases and the _____ curve shifts to the right.
- A) supply; demand B) supply; supply C) demand; supply D) demand; demand
- 63) When the inflation rate is expected to increase, the _____ for bonds falls, while the _____ curve shifts to the right.
- A) supply; demand B) supply; supply C) demand; demand D) demand; supply
- 64) A decrease in expected inflation shifts the demand for bonds to the _____, the supply of bonds to the _____, and the interest rate _____.
- A) Left; right; rises
 B) left; left; falls
 C) right; left; rises
 D) right; left; falls
 E) right; right; rises
- 65) When the inflation rate is expected to rise, interest rates will _____; this result has been termed the _____.
- A) rise; Fisher effect
 B) fall; Keynes effect
 C) fall; Fisher effect
 D) rise; Pigou effect
 E) rise; Keynes effect

- 66) During a business cycle expansion, the supply of bonds shifts to the _____ as businesses perceive more profitable investment opportunities, while the demand for bonds shifts to the _____ as a result of the increase in wealth generated by the economic expansion.
- A) left; right B) right; left C) left; left D) right; right
- 67) During a business cycle contraction, the supply of bonds shifts to the _____ as businesses perceive fewer profitable investment opportunities, while the demand for bonds shifts to the _____ as a result of the decrease in wealth.
- A) left; left B) right; left C) left; right D) right; right
- 68) When the interest rate on a bond is above the equilibrium interest rate, in the bond market there is excess _____ and the interest rate will _____.
- A) demand; fall B) supply; rise C) supply; fall D) demand; rise
- 69) When the interest rate on a bond is below the equilibrium interest rate, in the bond market there is excess _____ and the interest rate will _____.
- A) demand; rise B) demand; fall C) supply; rise D) supply; fall
- 70) When the interest rate changes,
- A) the demand curve for bonds shifts to the left.
B) the supply curve for bonds shifts to the left.
C) the supply curve for bonds shifts to the right.
D) the demand curve for bonds shifts to the right.
E) none of the above occurs.
- 71) A decrease in the brokerage commissions in the housing market from 6 to 5% of the sales price will shift the _____ curve for bonds to the _____.
- A) demand; right
B) supply; right
C) supply; left
D) demand; left
E) does not affect the demand or supply of bonds
- 72) When people revise upward their expectations of future interest rates, the _____ curve for bonds shifts to the _____.
- A) demand; right B) demand; left C) supply; left D) supply; right
- 73) When people expect interest rates to fall in the future, the _____ curve for bonds shifts to the _____.
- A) demand; right B) demand; left C) supply; left D) supply; right

- 74) If people expect real estate prices to increase significantly, the _____ curve for bonds will shift to the _____.
 A) demand; right B) demand; left C) supply; left D) supply; right
- 75) When stock prices become more volatile, the _____ curve for bonds shifts to the _____.
 A) demand; right B) demand; left C) supply; left D) supply; right
- 76) When stock prices become less volatile, the _____ curve for bonds shifts to the _____.
 A) demand; right B) demand; left C) supply; left D) supply; right
- 77) When prices in the stock market become more uncertain, the demand curve for bonds shifts to the _____ and the interest rate _____.
 A) right; rises B) left; rises C) right; falls D) left; falls
- 78) When the federal government's budget deficit increases, the _____ curve for bonds shifts to the _____.
 A) demand; left B) supply; right C) supply; left D) demand; right
- 79) When the expected inflation rate increases, the demand for bonds _____, the supply of bonds _____, and the interest rate _____.
 A) increases; decreases; falls B) decreases; decreases; falls
 C) decreases; increases; rises D) increases; increases; rises
- 80) When an economy grows out of a recession, normally the demand for bonds _____ and the supply of bonds _____.
 A) decreases; decreases B) increases; decreases
 C) increases; increases D) decreases; increases
- 81) When the economy slips into a recession, normally the demand for bonds _____, the supply of bonds _____, and the interest rate _____.
 A) increases; decreases; falls B) decreases; decreases; falls
 C) decreases; increases; rises D) increases; increases; rises
- 82) When the economy enters into a boom, normally the demand for bonds _____, the supply of bonds _____, and the interest rate _____.
 A) increases; decreases; rises B) decreases; decreases; falls
 C) increases; increases; rises D) decreases; increases; rises

- 83) In the 1990s Japan had the lowest interest rates in the world due to a combination of
- A) inflation and expansion.
 - B) deflation and recession.
 - C) deflation and expansion.
 - D) disinflation and expansion.
 - E) inflation and recession.
- 84) Deflation causes the demand for bonds to _____, the supply of bonds to _____, and interest rates to _____.
- A) decrease; decrease; increase
 - B) increase; increase; increase
 - C) decrease; increase; increase
 - D) decrease; decrease; decrease
 - E) increase; decrease; decrease
- 85) Deflation causes the demand for bonds to _____, the supply of bonds to _____, and bond prices to _____.
- A) decrease; decrease; increase
 - B) decrease; increase; increase
 - C) increase; decrease; increase
 - D) increase; increase; increase
 - E) decrease; decrease; decrease
- 86) Deflation causes the _____ bonds to increase, the _____ bonds to decrease, and _____ to increase.
- A) supply of; demand for; interest rates
 - B) demand for; supply of; exchange rates
 - C) demand for; supply of; interest rates
 - D) supply of; demand for; bond prices
 - E) demand for; supply of; bond prices

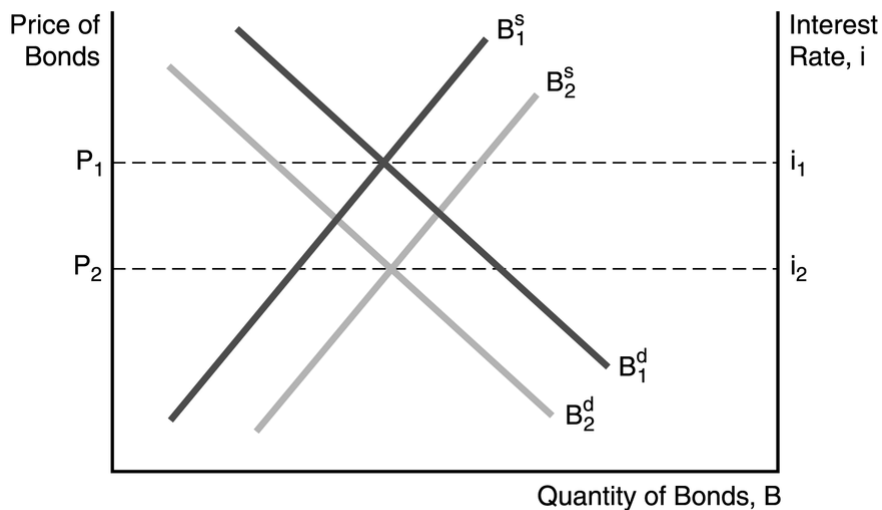


Figure 5-1

- 87) In Figure 5-1, the most likely cause of the increase in the equilibrium interest rate from i_1 to i_2 is
- A) a sharp decline in the growth rate of the money supply.
 - B) an increase in the expected inflation rate.
 - C) a decrease in the expected inflation rate.
 - D) a combination of both A and C above.
- 88) In Figure 5-1, an increase in the expected inflation rate causes the
- A) interest rate to increase from i_1 to i_2 .
 - B) interest rate to decrease from i_2 to i_1 .
 - C) demand curve for bonds to shift to the left.
 - D) both A and C of the above.
 - E) both B and C of the above.
- 89) In Figure 5-1, one factor that would not have caused the supply of bonds to increase (shift to the right) is
- A) a business cycle expansion.
 - B) expectations of more profitable investment opportunities.
 - C) a decrease in government budget deficits.
 - D) an increase in expected inflation.
- 90) In Figure 5-1, one factor that would not have caused the demand for bonds to decrease (shift to the left) is
- A) an increase in the expected return on bonds relative to other assets.
 - B) a decrease in wealth.
 - C) an increase in the riskiness of bonds relative to other assets.
 - D) a decrease in the expected return on bonds relative to other assets.

91) In Figure 5-1, factors that would not have caused the demand for bonds to decrease (shift to the left) include:

- A) an increase in the expected return on bonds relative to other assets.
- B) a reduction in the riskiness of bonds relative to other assets.
- C) a decrease in wealth.
- D) all of the above.
- E) only A and B of the above.

92) In Figure 5-1, factors that could cause the supply of bonds to increase (shift to the right) include:

- A) expectations of more profitable investment opportunities.
- B) an increase in expected inflation.
- C) an increase in government budget deficits.
- D) all of the above.
- E) only B and C of the above.

93) In Figure 5-1, factors that could cause the demand for bonds to decrease (shift to the left) include:

- A) a decrease in the expected rate of inflation.
- B) expectations of higher interest rates in the future.
- C) a decrease in the riskiness of bonds relative to other assets.
- D) all of the above.
- E) only A and B of the above.

94) In Figure 5-1, the price of bonds would fall from P_1 to P_2 and the interest rate would rise from i_1 to i_2 if

- A) the riskiness of bonds falls relative to other assets.
- B) interest rates are expected to fall in the future.
- C) the expected return on bonds relative to other assets is expected to increase in the future.
- D) inflation is expected to increase in the future.

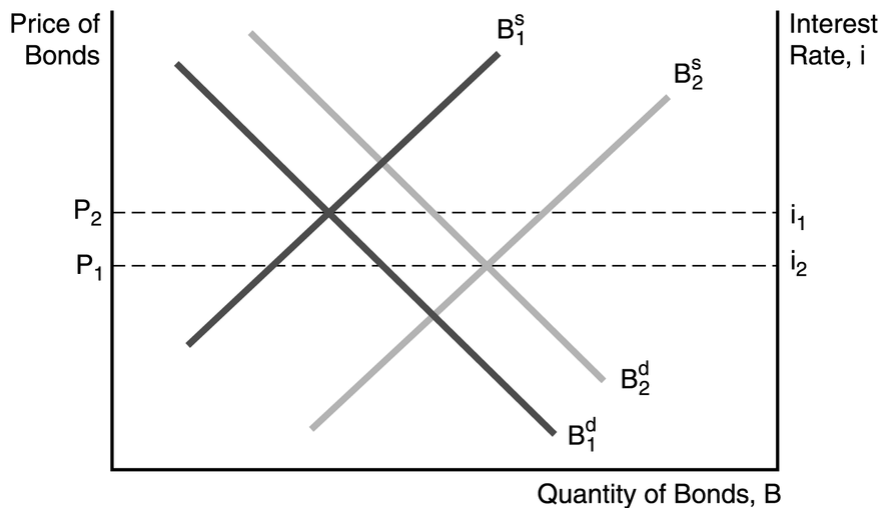


Figure 5-2

- 95) In Figure 5-2, one possible explanation for the increase in the interest rate from i_1 to i_2 is
- | | |
|------------------------------------|------------------------------------------------|
| A) an increase in economic growth. | B) an increase in the expected inflation rate. |
| C) a decrease in economic growth. | D) a decrease in the expected inflation rate. |
- 96) In Figure 5-2, one factor that would not have caused the supply of bonds to shift to the right is
- | | |
|-----------------------------------------------|---------------------------------------|
| A) an increase in government budget deficits. | B) a business cycle expansion. |
| C) a recession. | D) an increase in expected inflation. |
- 97) In Figure 5-2, one factor that would not have caused the demand for bonds to increase (shift to the right) is
- | |
|--------------------------------------------------------------------------|
| A) an increase in wealth. |
| B) a decrease in the expected return on bonds relative to other assets. |
| C) a reduction in the riskiness of bonds relative to other assets. |
| D) an increase in the expected return on bonds relative to other assets. |
- 98) In Figure 5-2, factors that could cause the supply of bonds to increase (shift to the right) include:
- | |
|--------------------------------------------------------------|
| A) a decrease in expected inflation. |
| B) a decrease in government budget deficits. |
| C) expectations of more profitable investment opportunities. |
| D) all of the above. |
| E) only B and C of the above. |

- 99) In Figure 5-2, factors that could cause the demand for bonds to increase include:
- A) an increase in the expected return on bonds relative to other assets.
 - B) a decrease in the expected return on bonds relative to other assets.
 - C) a reduction in the riskiness of bonds relative to other assets.
 - D) both A and B of the above.
 - E) both A and C of the above.
- 100) In Figure 5-2, factors that could cause the demand for bonds to shift to the right include:
- A) expectations of lower interest rates in the future.
 - B) an increase in the expected rate of inflation.
 - C) an increase in the riskiness of bonds relative to other assets.
 - D) all of the above.
- 101) When comparing the Loanable Funds and Liquidity Preference Frameworks of interest rate determination, which of the following are true?
- A) The liquidity preference framework provides a simpler analysis of the effects from changes in income, the price level, and the supply of money.
 - B) The loanable funds framework is easier to use when analyzing the effects from changes in expected inflation.
 - C) In most instances, the two approaches to interest rate determination yield the same predictions.
 - D) All of the above are true.
 - E) Only A and B of the above are true.
- 102) In his Liquidity Preference Framework, Keynes assumed that money has a zero rate of return; thus,
- A) when interest rates rise, the expected return on money falls relative to the expected return on bonds, causing the demand for money to rise.
 - B) when interest rates fall, the expected return on money falls relative to the expected return on bonds, causing the demand for money to rise.
 - C) when interest rates fall, the expected return on money falls relative to the expected return on bonds, causing the demand for money to fall.
 - D) when interest rates rise, the expected return on money falls relative to the expected return on bonds, causing the demand for money to fall.
- 103) In Keynes's liquidity preference framework,
- A) the demand for bonds must equal the supply of money.
 - B) the demand for money must equal the supply of bonds.
 - C) an excess supply of bonds implies an excess demand for money.
 - D) an excess demand of bonds implies an excess demand for money.

- 104) The opportunity cost of holding money is
- A) the interest rate.
 - B) the level of income.
 - C) the price level.
 - D) all of the above.
 - E) only A and B of the above.
- 105) An increase in the interest rate
- A) decreases the demand for money.
 - B) decreases the quantity of money demanded.
 - C) increases the quantity of money demanded.
 - D) has no effect on the quantity of money demanded.
 - E) increases the demand for money.
- 106) A decrease in the interest rate
- A) increases the demand for money.
 - B) decreases the quantity of money demanded.
 - C) increases the quantity of money demanded.
 - D) decreases the demand for money.
 - E) has no effect on the quantity of money demanded.
- 107) In the Keynesian liquidity preference model, a business cycle _____ causes income to _____ and interest rates to _____.
- A) contraction; increase; increase
 - B) contraction; decrease; increase
 - C) contraction; decrease; decrease
 - D) expansion; increase; decrease
 - E) expansion; decrease; decrease
- 108) In the Keynesian liquidity preference framework, a rise in the price level causes the demand for money to _____ and the demand curve to shift to the _____.
- A) increase; right
 - B) increase; left
 - C) decrease; right
 - D) decrease; left
- 109) A decline in the expected inflation rate causes the demand for money to _____ and the demand curve to shift to the _____.
- A) increase; left
 - B) decrease; left
 - C) decrease; right
 - D) increase; right

- 110) When the Fed ____ the money stock, the money supply curve shifts to the ____ and the interest rate ____
- A) increases; left; rises
 - B) increases; right; rises
 - C) decreases; left; falls
 - D) decreases; left; rises
 - E) decreases; right; rises
- 111) When the price level falls, the _____ curve for nominal money _____, and interest rates _____.
- A) demand; decreases; falls
 - B) supply; decreases; falls
 - C) demand; increases; rises
 - D) supply; increases; falls
 - E) supply; increases; rises
- 112) A(n) _____ in the money supply creates excess _____ of (for) money, causing interest rates to _____.
- A) decrease; demand; fall
 - B) increase; demand; rise
 - C) increase; supply; fall
 - D) increase; supply; rise
 - E) decrease; supply; fall

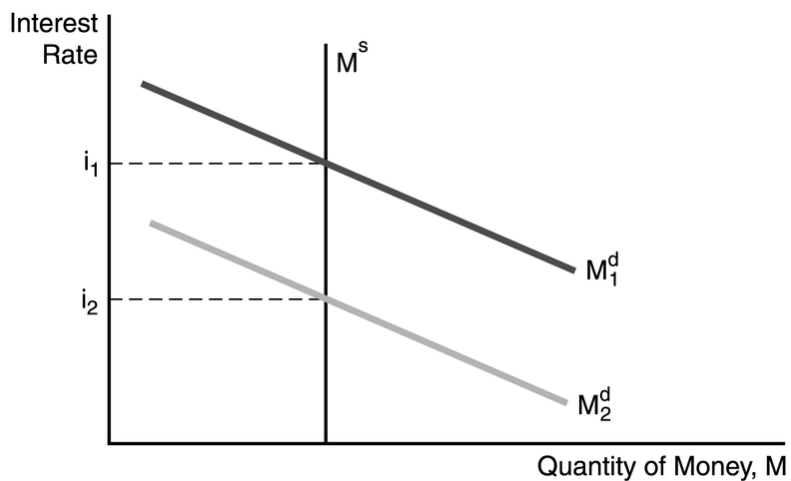


Figure 5-3

113) In Figure 5-3, the increase in the interest rate from i_2 to i_1 can be explained by

- A) an increase in income.
- B) a decline in the expected price level.
- C) a decrease in money growth.
- D) all of the above.
- E) only A and B of the above.

114) In Figure 5-3, the increase in the interest rate from i_2 to i_1 can be explained by

- A) a decrease in money growth.
- B) an increase in the expected price level.
- C) an increase in income.
- D) both A and C of the above.
- E) both B and C of the above.

115) In Figure 5-3, the decline in the interest rate from i_1 to i_2 can be explained by

- A) a decrease in income.
- B) a decrease in the expected price level.
- C) an increase in money growth.
- D) both A and B of the above.
- E) both A and C of the above.

- 121) When the growth rate of the money supply is decreased, interest rates will rise immediately if the liquidity effect is _____ than the other money supply effects and there is _____ adjustment of expected inflation.
- A) larger; fast B) larger; slow C) smaller; slow D) smaller; fast
- 122) When the growth rate of the money supply is increased, interest rates will rise immediately if the liquidity effect is _____ than the other money supply effects and there is _____ adjustment of expected inflation.
- A) larger; fast B) larger; slow C) smaller; slow D) smaller; fast
- 123) If the Fed wants to permanently lower interest rates, then it should lower the rate of money growth if
- A) the liquidity effect is larger than the other effects.
B) there is slow adjustment of expected inflation.
C) the liquidity effect is smaller than the expected inflation effect.
D) there is fast adjustment of expected inflation.
- 124) If the Fed wants to permanently lower interest rates, then it should raise the rate of money growth if
- A) there is slow adjustment of expected inflation.
B) the liquidity effect is larger than the other effects.
C) the liquidity effect is smaller than the expected inflation effect.
D) there is fast adjustment of expected inflation.

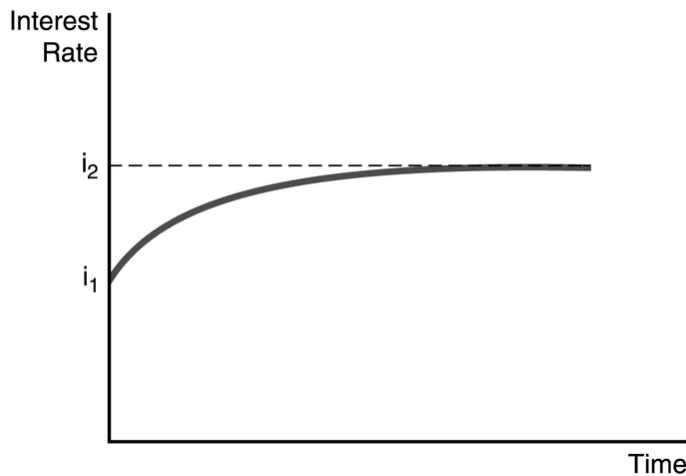


Figure 5-5

- 125) Figure 5-5 illustrates the effect of an increased rate of money supply growth. From the figure, one can conclude that the
- A) liquidity effect is smaller than the expected inflation effect and interest rates adjust slowly to changes in expected inflation.
 - B) liquidity effect is larger than the expected inflation effect and interest rates adjust quickly to changes in expected inflation.
 - C) liquidity effect is larger than the expected inflation effect and interest rates adjust slowly to changes in expected inflation.
 - D) liquidity effect is smaller than the expected inflation effect and interest rates adjust quickly to changes in expected inflation.
- 126) Figure 5-5 illustrates the effect of an increased rate of money supply growth. From the figure, one can conclude that the
- A) Fisher effect is smaller than the expected inflation effect and interest rates adjust quickly to changes in expected inflation.
 - B) Fisher effect is dominated by the liquidity effect and interest rates adjust slowly to changes in expected inflation.
 - C) liquidity effect is dominated by the Fisher effect and interest rates adjust quickly to changes in expected inflation.
 - D) liquidity effect is dominated by the Fisher effect and interest rates adjust slowly to changes in expected inflation.

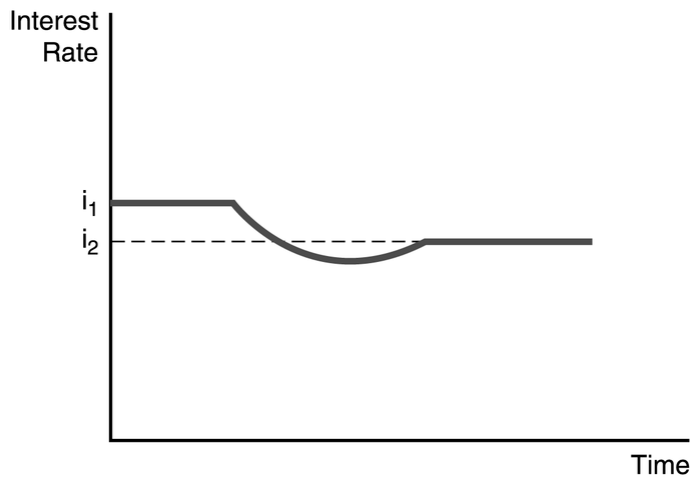


Figure 5-6

- 127) Figure 5-6 illustrates the effect of an increased rate of money supply growth. From the figure, one can conclude that the
- A) liquidity effect is smaller than the expected inflation effect and interest rates adjust quickly to changes in expected inflation.
 - B) liquidity effect is larger than the expected inflation effect and interest rates adjust quickly to changes in expected inflation.
 - C) liquidity effect is smaller than the expected inflation effect and interest rates adjust slowly to changes in expected inflation.
 - D) liquidity effect is larger than the expected inflation effect and interest rates adjust slowly to changes in expected inflation.
- 128) Figure 5-6 illustrates the effect of an increased rate of money supply growth. From the figure, one can conclude that the
- A) Fisher effect is dominated by the liquidity effect and interest rates adjust slowly to changes in expected inflation.
 - B) Fisher effect is smaller than the expected inflation effect and interest rates adjust quickly to changes in expected inflation.
 - C) liquidity effect is dominated by the Fisher effect and interest rates adjust slowly to changes in expected inflation.
 - D) liquidity effect is dominated by the Fisher effect and interest rates adjust quickly to changes in expected inflation.

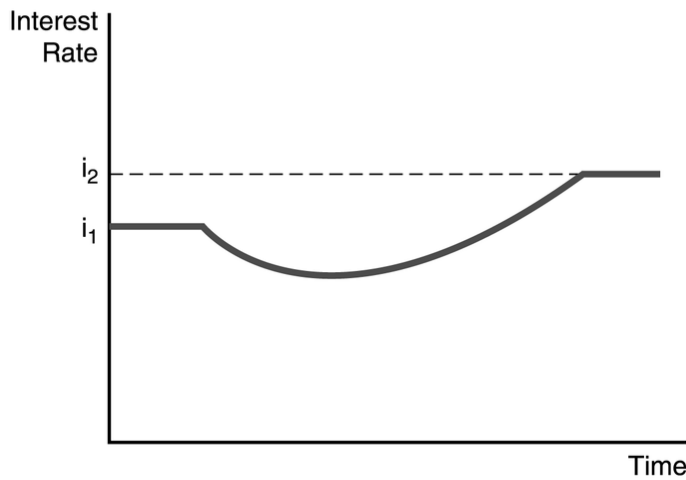


Figure 5-7

- 129) Figure 5-7 illustrates the effect of an increased rate of money supply growth. From the figure, one can conclude that the
- A) liquidity effect is smaller than the expected inflation effect and interest rates adjust slowly to changes in expected inflation.
 - B) liquidity effect is larger than the expected inflation effect and interest rates adjust quickly to changes in expected inflation.
 - C) liquidity effect is larger than the expected inflation effect and interest rates adjust slowly to changes in expected inflation.
 - D) liquidity effect is smaller than the expected inflation effect and interest rates adjust quickly to changes in expected inflation.

Answer Key
Testname: CH5

- 1) B
- 2) A
- 3) B
- 4) D
- 5) C
- 6) D
- 7) B
- 8) B
- 9) D
- 10) D
- 11) D
- 12) A
- 13) B
- 14) C
- 15) B
- 16) C
- 17) B
- 18) A
- 19) D
- 20) C
- 21) B
- 22) C
- 23) D
- 24) D
- 25) B
- 26) D
- 27) C
- 28) D
- 29) C
- 30) D
- 31) B
- 32) A
- 33) C
- 34) E
- 35) D
- 36) C
- 37) A
- 38) D
- 39) D
- 40) E
- 41) B
- 42) E
- 43) C
- 44) A
- 45) D
- 46) A
- 47) B
- 48) D
- 49) A
- 50) D
- 51) D

Answer Key
Testname: CH5

- 52) E
- 53) B
- 54) A
- 55) B
- 56) C
- 57) B
- 58) B
- 59) D
- 60) D
- 61) D
- 62) B
- 63) D
- 64) D
- 65) A
- 66) D
- 67) A
- 68) A
- 69) C
- 70) E
- 71) D
- 72) B
- 73) A
- 74) B
- 75) A
- 76) B
- 77) C
- 78) B
- 79) C
- 80) C
- 81) B
- 82) C
- 83) B
- 84) E
- 85) C
- 86) E
- 87) B
- 88) D
- 89) C
- 90) A
- 91) E
- 92) D
- 93) B
- 94) D
- 95) A
- 96) C
- 97) B
- 98) C
- 99) E
- 100) A
- 101) D
- 102) D

Answer Key
Testname: CH5

- 103) C
- 104) A
- 105) B
- 106) C
- 107) C
- 108) A
- 109) B
- 110) D
- 111) A
- 112) C
- 113) A
- 114) E
- 115) D
- 116) A
- 117) D
- 118) A
- 119) D
- 120) B
- 121) B
- 122) D
- 123) C
- 124) B
- 125) D
- 126) C
- 127) D
- 128) A
- 129) A