

Econ 302

Name: \_\_\_\_\_

Banking and Monetary Policy

Spring 1999 - Prof. Abrams

Exam #2

Directions: Please indicate answers to the 33 questions on both the exam and answer sheet. Both will be collected, but only the exam will be returned. Good Luck.

- 1) Holding everything else constant,
  - A) if an asset's risk rises relative to that of alternative assets, the demand will increase.
  - B) the more liquid an asset, relative to alternative assets, the greater will be the demand.
  - C) the lower the expected return relative to alternative assets, the greater will be the demand.
  - D) only (a) and (b) of the above.
  
- 2) When the value of the dollar changes from 0.75 pounds to 0.5 pounds, then
  - A) the pound has depreciated and the dollar has appreciated.
  - B) the pound has depreciated and the dollar has depreciated.
  - C) the pound has appreciated and the dollar has depreciated.
  - D) the pound has appreciated and the dollar has appreciated.
  
- 3) Which of the following cause a depreciation of the domestic currency?
  - A) A lower domestic interest rate due to a lower expected inflation rate.
  - B) A decrease in the domestic money supply.
  - C) A decline in the domestic real interest rate.
  - D) All of the above.
  
- 4) An decrease in the domestic interest rate shifts the expected return schedule for \_\_\_\_\_ deposits to the \_\_\_\_\_ and causes the domestic currency to depreciate.
 

A) domestic; left	B) foreign; right	C) foreign; left	D) domestic; right
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- 5) A decrease in the foreign interest rate shifts the expected return schedule for \_\_\_\_\_ deposits to the \_\_\_\_\_ and causes the domestic currency to appreciate.
 

A) foreign; right	B) foreign; left	C) domestic; left	D) domestic; right
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- 6) According to the interest parity condition, if the domestic interest rate is 12 percent and the foreign interest rate is 10 percent, then
  - A) the expected appreciation of the foreign currency must be 4 percent.
  - B) the expected depreciation of the foreign currency must be 4 percent.
  - C) the expected appreciation of the foreign currency must be 2 percent.
  - D) the expected depreciation of the foreign currency must be 2 percent.
  
- 7) If the dollar depreciates relative to the British pound
  - A) British dishes will become more expensive in the United States.
  - B) American computers will become less expensive in Great Britain
  - C) Swiss chocolate will become cheaper in the United States.
  - D) both (a) and (b) will occur.
  - E) both (b) and (c) will occur.

- 8) If the interest rate is 7 percent on franc-denominated assets and 5 percent on dollar-denominated assets, and if the dollar is expected to appreciate at a 4 percent rate,
- the expected return on franc-denominated assets in dollars is 1 percent.
  - the expected return on dollar-denominated assets in francs is 1 percent.
  - the expected return on dollar-denominated assets in francs is 3 percent.
  - the expected return on franc-denominated assets in dollars is 3 percent.
  - ~~franc-denominated assets have a lower expected return than dollar-denominated assets.~~
- 9) If the inflation rate in the United States is higher than that in Germany and productivity is growing at a slower rate in the United States than in Germany, then, in the long run,
- the German mark should appreciate relative to the dollar.
  - the dollar should neither appreciate nor depreciate relative to the German mark.
  - the German mark should depreciate relative to the dollar.
  - we cannot know whether the dollar will appreciate or depreciate since these factors offset each other.
- 10) Which of the following theories of the term structure is (are) able to explain the fact that interest rates on bonds of different maturities tend to move together over time?
- The expectations hypothesis
  - The segmented markets theory
  - The preferred habitat theory
  - Both (a) and (b) of the above
  - Both (a) and (c) of the above
- 11) A plot of the interest rates on default-free government bonds with different terms to maturity is called
- an interest-rate curve.
  - a term-structure curve.
  - a yield curve.
  - a risk-structure curve.
- 12) The risk premium on corporate bonds becomes smaller if
- the riskiness of corporate bonds increases.
  - the liquidity of corporate bonds increases.
  - the liquidity of corporate bonds decreases.
  - both (a) and (c) occur.
- 13) When the default risk in corporate bonds increases, other things equal, the demand curve for corporate bonds shifts to the \_\_\_\_\_ and the demand curve for Treasury bonds shifts to the \_\_\_\_\_.
- right;left
  - left;left
  - right;right
  - left;right
- 14) Which of the following long-term bonds currently has the lowest interest rate?
- Corporate Aaa bonds
  - Corporate Baa bonds
  - Municipal bonds
  - U.S. Treasury bonds
- 15) A higher domestic money supply causes the domestic currency to
- depreciate in the short run.
  - appreciate in the long run.
  - appreciate in the short run.
  - do both (a) and (b) of the above.
  - do both (b) and (c) of the above.
- 16) Lower tariffs and quotas cause a country's currency to \_\_\_\_\_ in the \_\_\_\_\_ run.
- appreciate, long
  - depreciate, short
  - depreciate, long
  - appreciate, short



- 26) You would be less willing to purchase U.S. Treasury bonds, other things equal, if
- brokerage fees for trading stocks decline.
  - you expect interest rates to rise.
  - gold becomes more liquid.
  - any of the above occurs.
  - either (b) or (c) of the above occurs.
- 27) If the price of gold becomes more volatile, then, other things equal, the demand for stocks will \_\_\_\_\_ and the demand for antiques will \_\_\_\_\_.
- decrease; decrease
  - increase; increase
  - increase; decrease
  - decrease; increase
- 28) If the price of bonds is \_\_\_\_\_ the equilibrium price, the quantity of bonds supplied exceeds the quantity of bonds demanded, a condition called excess \_\_\_\_\_.
- above, demand
  - below, demand
  - above, supply
  - below, supply
- 29) Holding everything else equal, an increase in the money supply causes
- interest rates to decline initially.
  - interest rates to increase initially.
  - bond prices to increase initially.
  - both (a) and (c) of the above.
  - both (b) and (c) of the above.
- 30) In Keynes's liquidity preference framework,
- the demand for bonds must equal the supply of money.
  - the demand for money must equal the supply of bonds.
  - an excess supply of bonds implies an excess demand for money.
  - an excess demand of bonds implies an excess demand for money.
- 31) Factors that cause the demand curve for bonds to shift to the left include
- an increase in the volatility of stock prices.
  - a decrease in the inflation rate.
  - a decrease in the expected returns on stocks.
  - all of the above.
  - none of the above.
- 32) 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.
- larger; slow
  - larger; fast
  - smaller; fast
  - smaller; slow
- 33) When the price level falls, the demand curve for money shifts to the \_\_\_\_\_ and the interest rate \_\_\_\_\_.
- right; falls
  - right; rises
  - left; falls
  - left; rises

