

Name _____

Lab _____

Quiz #3

(1) On the same day Ben Bernanke changes the Reserve Ratio to 10%, you deposit \$2000

(a) What is the Money Multiplier?

Money Multiplier = $1/RR = 10$

(b) How much money did fractional reserve banking generate off your deposit?

\$20,000

(2) Recall the three functions of money discussed in your book and lecture.
Identify the function of money that is being used in each of the following.

(a) You place \$100 in your mattress and take it out one year later.

Store of Value

(b) You used cash to buy \$120 Cardinals tickets.

Medium of Exchange

(c) The menu says that a pork chop is \$8.

Unit of Account

(3) If the average dollar is used 10 times per year and Nominal GDP is \$10 billion, what is the money supply in the economy?

\$1 billion

(4) Name three things the Fed can do to alter the money supply.

Open market operations, Discount rate, Reserve ratio

(5) If the tax rate is 20%, and the real interest rate is 3%, how much does the real after-tax rate of return fall if inflation rises from 2% to 7%?

You lose 1% in real return
