Assignment 10

1. Which of the following is a reason why the Japanese yen is considered money?
   a) The yen is an asset that lacks liquidity.
   b) It is backed by silver.
   c) It is generally accepted as a medium of exchange in all countries of the world.
   d) Its value over the years has varied significantly.
   e) Goods in Japan are priced in terms of yen, the most liquid asset of the economy.

2. What is the maximum increase in the money supply if the reserve requirement is 20 percent and excess reserves equal $20,000?
   a) $24,000
   b) $36,000
   c) $21,000
   d) $100,000
   e) $16,000

3. The Eurocurrency market consists of a banking network in which
   a) transactions are denominated in currency other than the one of the country in which the bank is located.
   b) all transactions are denominated in European currency.
   c) most transactions are denominated in yen.
   d) all transactions are denominated in euros.
   e) all transactions are denominated in either euros or dollars.

4. Which of the following receive their charter from the federal government?
   a) Local banks
   b) State banks
   c) Credit unions
   d) Thrift institutions
   e) National banks
Balance Sheet
Arizona Savings Bank

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>Checking accounts</td>
</tr>
<tr>
<td>U.S. Bonds</td>
<td>Savings accounts</td>
</tr>
<tr>
<td>Cash Reserves</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>Loans</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>Total Liabilities</td>
</tr>
<tr>
<td>$10,000,000</td>
<td>$10,000,000</td>
</tr>
</tbody>
</table>

5. Assume that the reserve requirement is 20 percent on all deposit liabilities. Refer to the balance sheet above. How many new loans can Arizona Savings Bank make?

a) $10,000,000
b) $3,000,000
c) $7,000,000
d) $1,000,000
e) $0

6. Assume a reserve requirement of 25 percent. If a bank has zero excess reserves and $100,000 in total cash reserves, then its deposits must equal

a) $100,000.
b) $400,000.
c) $25,000.
d) $750,000.
e) $250,000.

7. Which of the following would not be counted as part of M1?

a) Money market deposit accounts
b) Currency
c) Credit union share draft accounts
d) Travelers’ checks
e) Demand deposits

8. Barter is inefficient for all the following reasons <i>except</i>:

a) it does not allow for specialization of labor.
b) it results in high search and information costs.
c) it allows for direct exchanges of goods and services.
d) it results in high transaction costs.
e) it requires a double coincidence of wants.
9. When do we say that a bank is loaned up?
   a) When excess reserves equal zero
   b) When its debtors don't want to pay
   c) When it is susceptible to a bank panic
   d) When it is part of a fractional reserve banking system
   e) When its required reserves are equal to its excess reserves

10. Savings, time deposits, and demand deposits are considered to be
    a) the net worth of a depository institution.
    b) loans of a depository institution.
    c) liabilities of a depository institution.
    d) reserves of a depository institution.
    e) assets of a depository institution.

11. Before the euro was established, another form of composite currency was used in Western Europe as unit of account. This composite currency is known as
    a) EMSs.
    b) ECUs.
    c) Europass.
    d) EOAs.
    e) SDRs.

12. U.S. bank notes have no intrinsic value, yet are widely accepted as a medium of exchange. This is a result of
    a) the power of the Federal Reserve to determine monetary values.
    b) the fiduciary monetary system.
    c) the use of money as a store of value.
    d) the valuation of currency as commodity money.
    e) Gresham's law.

13. Most international banking facilities are located in
    a) the Caribbean.
    b) New York State.
    c) Europe.
    d) Florida.
    e) Japan.
### 14. What is M2 in the table above?

- a) $2,815
- b) $1,295
- c) $1,475
- d) $1,145
- e) $1,590

### 15. Assume that the reserve requirement is 10 percent. If a bank has total deposits of $80 million, then the required reserves must equal

- a) $80 million.
- b) $12 million.
- c) $10 million.
- d) $8 million.
- e) $0.

### 16. Assume that a Spanish investor deposits 1,000 euros in an American time deposit denominated in dollars. The exchange rate is then €1 = $1 After two months, the investor cashes in the dollar deposit only to obtain 800 euros. What must the new exchange rate be at the time of withdrawal? (Interest earnings are zero.)

- a) €1 = $0.80
- b) €1 = $1.80
- c) €1 = $1.00
- d) €1 = $1.25
- e) €1 = $8.00

### 17. International banking facilities are

- a) foreign branch offices of large domestic banks.
- b) the office locations of the International Monetary Fund.
- c) "shell" bank branches of U.S. banks in the Caribbean.
- d) European branch offices in the United States.
- e) departments of U.S. banks that engage in Eurocurrency banking.
18. An asset that can easily be exchanged for goods and services is called a(n)
   a) illegitimate asset.
   b) liquid asset.
   c) financial asset.
   d) barter-like asset.
   e) service.

19. Referring to a financial agreement, what does the term ROSCAS stand for?
   a) Real Operations of Cash and Solvency
   b) Refinancing of Simple Credit and Savings
   c) Rotating Savings and Credit Associations
   d) Rapid Operations System for Cash Advances
   e) None of these

20. The Eurocurrency market is dominated by
   a) the Euroyen.
   b) the Euroeuro.
   c) the Europound.
   d) the Eurodollar.
   e) the Euro.

Essay Questions

1. During World War II, cigarettes were used as money in prisoner of war camps. Considering the attributes a good money should possess, why would cigarettes emerge as money among prisoners?

2. The deposit expansion multiplier measures the maximum possible expansion of the money supply in the banking system. What factors could cause the actual expansion of the money supply to differ from that given by the deposit expansion multiplier?