Economics 252 – Financial Markets

Spring 2011

Lecture 15: Monetary Policy

April 4, 2011

Multiple Choice Questions

Question 18.1

Which of the following statements are true about the Bank of England?
(More than one answer may apply.)

(a) The Bank of England was founded in the late 17th century and it had a special charter from the government, allowing it to issue shares and sell shares to a large number of people.
(b) It was set up as a central bank right from its inception.
(c) Its dominance created stability in the U.K. banking system, because it required all other banks to keep deposits with it.
(d) It formally gained independence from the government in 1997.

Question 18.2

Which of the following statements are true about the Federal Reserve System in the U.S.?
(More than one answer may apply.)

(a) It was created in the early 20th century.
(b) Each of the 50 U.S. states has its own Federal Reserve Bank.
(c) The headquarters of the Federal Reserve System, referred to as the Federal Reserve Board, is located in Washington, D.C.
(d) Each bank that has deposits in one of the Federal Reserve Banks is mandated to operate a discount window, which is a teller window at which its customers can get special discounted banking products.

Question 18.3

What is the federal funds rate?

(a) It is a rate that mutual funds in the U.S. are mandated to pay to their investors.
(b) The federal funds rate, targeted by the Federal Open Markets Committee in the U.S., is an overnight interest rate, which is charged on loans between banks and some other financial institutions.
(c) The federal funds rate denotes the interest rate that is paid on reserve accounts at the Federal Reserve.
(d) It is a synonym for the London interbank offered rate (LIBOR).

Question 18.4

As of 2011, which of the following countries do not have the euro as their official currency?
(More than one answer may apply.)

(a) Germany.
(b) The United Kingdom.
(c) Sweden.
(d) Italy.

Question 18.5

Which of the following are changes, directly relevant for central banking, that have been implemented in the U.S. as a response to the financial crisis from 2007-2008?
(More than one answer may apply.)

(a) The Emergency Economic Stabilization Act (EESA) from 2008 enabled the Federal Reserve to pay interest on bank reserves, held in the accounts at the Federal Reserve.
(b) The Dodd-Frank Act from 2010 mandates that no regulation can be made with reference to the ratings of the Nationally Recognized Statistical Rating Organizations (NRSROs).
(c) Standard & Poor's has been forced to merge with Moody's in order to bundle the rating knowledge of the two companies.
(d) Instead of the Federal Open Markets Committee, the Basel committee in Switzerland will determine the range for the federal funds rate, starting in 2012.

Correct Answers

18.1: (a), (c), and (d)
18.2: (a) and (c)
18.3: (c)
18.4: (b) and (c)
18.5: (a) and (b)