Modern Monetary Theory and European Macroeconomics (MC)

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Dr. Dirk Ehnts

** Illustration zu „Die Sterntaler“ von Adrian Ludwig Richter – see Appendix*

One answer per question is correct.

1. Banks play an important role in the economy. They
   - (a) transform savings into investment
   - (b) give loans to the private sector
   - (c) create credit by transforming maturities
   - (d) lend out reserves and cash to firms

2. Banks create loans until...
   - (a) they have, given collateral and roughly similar lending elsewhere, satisfied demand
   - (b) the inflation rate exceeds 2-3%
   - (c) the current account moves into deficit
   - (d) minimum reserve requirements become binding

3. We use deposits to make payments. They are created by...

(a) banks taking in notes and coins

(b) credit creation of banks, deficit spending of governments and exchange of foreign currency-denominated deposits into local deposits

(c) credit creation of banks and government spending

(d) transformation of reserves into deposits by banks

4. When the government - by issuing government bonds in conjunction with the central bank - increases the amount of reserves in the financial system, then...

(a) this will crowd out bank loans one to one

(b) the inter-bank market interest rate will rise

(c) the inter-bank market interest rate will fall

(d) the central bank will hold more reserves

5. The difference between reserves and deposits is...

(a) that reserves are central bank money which is held by banks and deposits are deposits of the private sector in banks

(b) irrelevant in the real world

(c) not clear as it depends on the definition of "money"

(d) that reserves can be exchanged into cash and deposits cannot

6. A central bank has some influence over the money and capital markets, because...

(a) it controls the monetary supply

(b) it lends reserves out to banks which lend them out to firms and households

(c) it sets interest rate(s) in the money market

(d) it is responsible for confidence in the currency

7. Tax payments...

(a) reduce the amount of deposits in the economy

(b) reduce the inflation rate

(c) increase the inflation rate

(d) redistribute income

8. Since ECB president Mario Draghi swore to do 'whatever it takes' the ECB has...

(a) increased the money supply

(b) reduced the broad money supply M3

(c) filled in as lender of last resort for governments

(d) lost control over the inflation rate (December 2014: -0.2%)

9. If the central bank holds treasury bonds, this...
   (a) will lead to higher inflation
   (b) means that the central bank is not politically independent anymore
   (c) will increase the amount of reserves in the financial system
   (d) means that the central bank receives interest payment from the Treasury which - as central bank profits - will be transferred back to the Treasury.

10. A rise of the monetary base (cash + reserves) leads to...
   (a) a depreciation of the currency
   (b) higher inflation
   (c) a reduced velocity of money
   (d) no automatic adjustment

11. A reduction of deposits in the banking system can lead to...
   - (a) a reduction in loans or an increase in the balance sheets in case of cash withdrawal
   - (b) hyperinflation
   - (c) illiquidity in the banking system
   - (d) insolvency in the banking system

12. What kind of regulation effectively limits the amounts of loans that banks can create?
   - (a) interest rate ceilings
   - (b) reserves ratios (depending on deposits)
   - (c) privatisation of banks
   - (d) none of the above

13. In reality credit expansion by a single bank leads to...
   - (a) higher interest rates due to higher default risk
   - (b) a loss of reserves of that bank in inter-bank settlement
   - (c) foreign-currency debts due to a negative current account
   - (d) rising interest rate because of higher demand for money