Plume.

WEEKLY QUIZ · TERM 3, 2026 · WEEK 1

Monetary Policy Quiz (SAMPLE)

HSC Economics · Year 12

TIME ALLOWED	TOTAL MARKS	QUESTIONS
20 minutes	14	8

STUDENT NAME

CLASS

INSTRUCTIONS

- Write your name and class above before you begin.
- Attempt all questions in the spaces provided.
- The marks for each question are shown beside it.
- Write in blue or black pen; use pencil and a ruler for diagrams.
- If you need more space, continue on the back page and label the question number clearly.

MARK

_____ / 14

PART A

Questions 1–5 · 1 mark each

Multiple choice

Circle the letter of the best answer for each question.

Question 1

1 mark

Which of the following is the Reserve Bank of Australia's conventional instrument of monetary policy?

A. Open market purchases of foreign currency
B. The target for the cash rate
C. The size of the Commonwealth budget deficit
D. Statutory reserve requirements on commercial banks

Question 2

1 mark

The RBA's inflation target, agreed with the Australian Government, is to keep consumer price inflation

A. at exactly 2 per cent in every quarter.
B. between 2 and 3 per cent, on average, over time.
C. below the rate of growth in nominal wages.
D. between 0 and 2 per cent across the business cycle.

Question 3

1 mark

The cash rate is best described as the interest rate

A. charged on standard variable home loans.
B. paid on ten-year Commonwealth Government bonds.
C. on overnight loans between banks in the cash market.
D. charged by the RBA on emergency lending to insolvent banks.

Question 4

1 mark

Following a *reduction* in the cash rate, which combination of short-run outcomes is most likely?

A. A depreciation of the Australian dollar and higher consumption
B. An appreciation of the Australian dollar and higher saving
C. A depreciation of the Australian dollar and lower investment
D. An appreciation of the Australian dollar and lower net exports

Question 5

1 mark

Which of the following is NOT a channel of the monetary policy transmission mechanism?

- **A.** The cost of servicing existing variable-rate debt
- **B.** The exchange rate and the price of tradeable goods
- **C.** Asset prices and household wealth
- **D.** The legislated national minimum wage

PART B

Questions 6–8 · 9 marks

Short answer

Question 6

2 marks

Define the *stance* of monetary policy, and state the stance the RBA is most likely to adopt when it judges inflationary pressure to be excessive.

Question 7

3 marks

Explain how an *increase* in the cash rate is transmitted to household consumption through TWO distinct channels of the transmission mechanism.

Question 8

4 marks

The RBA conducts open market operations to support a higher cash rate target. With the aid of a correctly labelled diagram of the cash market, explain the effect of these operations on the equilibrium cash rate.

END OF QUIZ