

Name: \_\_\_\_\_ Date: \_\_\_\_\_

1. Economists use the term *money* to refer to:
  - A) income.
  - B) profits.
  - C) assets used for transactions.
  - D) earnings from labor.
  
2. *All* of the following are considered major functions of money *except* as a:
  - A) medium of exchange.
  - B) way to display wealth.
  - C) unit of account.
  - D) store of value.
  
3. When a pizza maker lists the price of a pizza as \$10, this is an example of using money as a:
  - A) store of value.
  - B) unit of account.
  - C) medium of exchange.
  - D) flow of value.
  
4. To make a trade in a barter economy requires:
  - A) currency.
  - B) a check.
  - C) scrip.
  - D) a double coincidence of wants.
  
5. In prisoner of war camps during World War II, the “currency” used was:
  - A) chocolates.
  - B) cigarettes.
  - C) gold.
  - D) IOUs.
  
6. In a country on a gold standard, the quantity of money is determined by the:
  - A) government.
  - B) central bank.
  - C) amount of gold.
  - D) buying and selling of government securities.

7. Open-market operations are:
- A) Commerce Department efforts to open foreign markets to international trade.
  - B) Federal Reserve purchases and sales of government bonds.
  - C) Securities and Exchange Commission rules requiring open disclosure of market trades.
  - D) Treasury Department purchases and sales of the U.S. gold stock.
8. Currency equals:
- A) *M1*.
  - B) the sum of funds in checking accounts.
  - C) the sum of checking accounts and paper money.
  - D) the sum of coins and paper money.
9. *All* of the following assets are included in *M1* *except*:
- A) currency.
  - B) demand deposits.
  - C) traveler's checks.
  - D) money market deposit accounts.
10. The definition of the transactions velocity of money is:
- A) money multiplied by prices divided by transactions.
  - B) transactions divided by prices multiplied by money.
  - C) money divided by prices multiplied by transactions.
  - D) prices multiplied by transactions divided by money.
11. If there are 100 transactions in a year and the average value of each transaction is \$10, then if there is \$200 of money in the economy, transactions velocity is \_\_\_\_\_ times per year.
- A) 0.2
  - B) 2
  - C) 5
  - D) 10
12. If the average price of goods and services in the economy equals \$10 and the quantity of money in the economy equals \$200,000, then real balances in the economy equal:
- A) 10.
  - B) 20,000.
  - C) 200,000.
  - D) 2,000,000.

13. If the quantity of real money balances is  $kY$ , where  $k$  is a constant, then velocity is:
- A)  $k$ .
  - B)  $1/k$ .
  - C)  $kP$ .
  - D)  $P/k$ .
14. Consider the money demand function that takes the form  $(M/P)^d = kY$ , where  $M$  is the quantity of money,  $P$  is the price level, and  $Y$  is real output. If the money supply is growing at a 10 percent rate, real output is growing at a 3 percent rate, and  $k$  is constant, what is the rate of inflation in this country?
- A) 3 percent
  - B) 7 percent
  - C) 10 percent
  - D) 13 percent
15. Percentage change in  $P$  is approximately equal to the percentage change in:
- A)  $M$ .
  - B)  $M$  minus percentage change in  $Y$ .
  - C)  $M$  minus percentage change in  $Y$  plus percentage change in velocity.
  - D)  $M$  minus percentage change in  $Y$  minus percentage change in velocity.
16. The right of seigniorage is the right to:
- A) levy taxes on the public.
  - B) borrow money from the public.
  - C) draft citizens into the armed forces.
  - D) print money.
17. "Inflation tax" means that:
- A) as the price level rises, taxpayers are pushed into higher tax brackets.
  - B) as the price level rises, the real value of money held by the public decreases.
  - C) as taxes increase, the rate of inflation also increases.
  - D) in a hyperinflation, the chief source of tax revenue is often the printing of money.
18. If the real interest rate declines by 1 percent and the inflation rate increases by 2 percent, the nominal interest rate must:
- A) increase by 2 percent.
  - B) increase by 1 percent.
  - C) remain constant.
  - D) decrease by 1 percent.

19. Evidence from the past 40 years in the United States supports the Fisher effect and shows that when the inflation rate is high, the \_\_\_\_\_ interest rate tends to be \_\_\_\_\_.
- A) nominal; high
  - B) nominal; low
  - C) real; high
  - D) real; low
20. Equilibrium in the market for goods and services determines the \_\_\_\_\_ interest rate and the expected rate of inflation determines the \_\_\_\_\_ interest rate.
- A) *ex ante* real; *ex ante* nominal
  - B) *ex post* real; *ex post* nominal
  - C) *ex ante* nominal; *ex post* real
  - D) *ex post* nominal; *ex post* real
21. The opportunity cost of holding money is the:
- A) nominal interest rate.
  - B) real interest rate.
  - C) rate of inflation.
  - D) prevailing Treasury bill rate.
22. Consider a money demand function that takes the form  $(M/P)^d = Y/4i$ , where  $M$  is the quantity of money,  $P$  is the price level,  $Y$  is real output, and  $i$  is the nominal interest rate. What is the average velocity of money in this economy?
- A)  $i$
  - B)  $4i$
  - C)  $1/4i$
  - D) 0.25
23. According to the classical theory of money, reducing inflation will not make workers richer because firms will increase product prices \_\_\_\_\_ each year and give workers \_\_\_\_\_ raises.
- A) more; larger
  - B) more; smaller
  - C) less; larger
  - D) less; smaller
24. Inflation \_\_\_\_\_ the variability of relative prices and \_\_\_\_\_ allocative efficiency.
- A) increases; increases
  - B) increases; decreases
  - C) decreases; decreases
  - D) decreases; increases

25. In the case of an unanticipated inflation:
- A) creditors with an unindexed contract are hurt because they get less than they expected in real terms.
  - B) creditors with an indexed contract gain because they get more than they contracted for in nominal terms.
  - C) debtors with an unindexed contract do not gain because they pay exactly what they contracted for in nominal terms.
  - D) debtors with an indexed contract are hurt because they pay more than they contracted for in nominal terms.
26. If inflation is 6 percent and a worker receives a 4 percent wage increase, then the worker's real wage:
- A) increased 4 percent.
  - B) increased 2 percent.
  - C) decreased 2 percent.
  - D) decreased 6 percent.
27. A rate of inflation that exceeds 50 percent per month is typically referred to as a(n):
- A) inflation.
  - B) hyperinflation.
  - C) deflation.
  - D) disinflation.
28. The major source of government revenue in most countries that experience a hyperinflation is:
- A) customs duties.
  - B) personal taxes.
  - C) seigniorage.
  - D) borrowing.
29. In practice, in order to stop a hyperinflation, in addition to stopping monetary growth, the government must:
- A) lower taxes and raise government spending.
  - B) raise taxes and reduce government spending.
  - C) change from one kind of currency to another.
  - D) call for a new election.

30. An example of a nominal variable is the:
- A) money supply.
  - B) quantity of goods produced in a year.
  - C) relative price of bread.
  - D) real wage.

## Answer Key

1. C
2. B
3. B
4. D
5. B
6. C
7. B
8. D
9. D
10. D
11. C
12. B
13. B
14. B
15. C
16. D
17. B
18. B
19. A
20. A
21. A
22. B
23. D
24. B
25. A
26. C
27. B
28. C
29. B
30. A