

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