

Chapter 2

Money and the Monetary System

TRUE-FALSE QUESTIONS

1. The two basic components of the U.S. money supply are physical money and deposit money.

Answer: T

Difficulty Level: Medium

Subject Heading: Components of Money Supply

2. Representative full-bodied money consists of paper money fully backed by a precious metal.

Answer: T

Difficulty Level: Medium

Subject Heading: Monetary History

3. Fiat money must be backed by a specific amount of gold or silver.

Answer: F

Difficulty Level: Medium

Subject Heading: Monetary History

4. A bimetallic standard is a monetary standard based only on gold.

Answer: F

Difficulty Level: Easy

Subject Heading: Monetary History

5. Demand deposits are issued by commercial banks and savings banks, and do not earn interest.

Answer: F

Difficulty Level: Easy

Subject Heading: Money Supply

6. Our monetary standard today is the paper dollar, issued by the Federal Reserve, and can be exchanged for gold or silver.

Answer: F

Difficulty Level: Medium

Subject Heading: Monetary History

7. No full-bodied or representative full-bodied money is in use in the United States today.

Answer: T

Difficulty Level: Medium

Subject Heading: Monetary History

8. No other asset is as liquid as money, because money is itself, a medium of exchange.

Answer: T

Difficulty Level: Medium

Subject Heading: Money Supply

9. Fiat money is legal tender proclaimed to be money by law.

Answer: T

Difficulty Level: Easy

Subject Heading: Monetary History

10. Physical money includes coin and currency.

Answer: T

Difficulty Level: Easy

Subject Heading: Money Supply

11. "Continental" were denominated in dollars and were backed by gold.

Answer: F

Difficulty Level: Easy

Subject Heading: Monetary History

12. The use of "continentals" led to a long period of distrust of paper money.

Answer: T

Difficulty Level: Easy

Subject Heading: Monetary History

13. The faster velocity of money, the greater an economy's GDP.

Answer: T

Difficulty Level: Easy

Subject Heading: Money Supply

14. M1 includes currency and demand deposits but excludes travelers' checks.

Answer: F

Difficulty Level: Easy

Subject Heading: Money Supply

15. Fiat money is a form of credit money.

Answer: T

Difficulty Level: Easy

Subject Heading: Monetary History

16. A store of purchasing power is the most important function of money.

Answer: F

Difficulty Level: Medium

Subject Heading: Functions of Money

17. A major objective of the Fed is to regulate and control the supply of money and the availability of credit.

Answer: T

Difficulty Level: Easy

Subject Heading: Money Supply

18. One reason the Fed defines so many measures of money is that economists have different opinions as to which measure is most consistently related to spending and other economic activity.

Answer: T

Difficulty Level: Medium

Subject Heading: Money Supply

19. Even though credit card balances and limits are not included in any definition of money supply, these balances and limits can affect the rate of turnover of money supply and contribute to money supply expansion.

Answer: T

Difficulty Level: Medium

Subject Heading: Money Supply

20. According to the Bretton Woods agreement, one ounce of gold is set equal to US \$35, and each participating country pegs its currency to gold or the U.S. dollar.

Answer: T

Difficulty Level: Medium

Subject Heading: Monetary History

22. Inflation leads to an increase in the purchasing power of money.

Answer: F

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

23. Currency held in vaults of depository institutions is excluded from M1.

Answer: T

Difficulty Level: Easy

Subject Heading: Money Supply

24. The U.S. dollar was defined in terms of gold until the 1980s.

Answer: F

Difficulty Level: Medium

Subject Heading: Monetary History

25. The bimetallic standard was difficult to maintain because the market ratio between silver and gold changed constantly.

Answer: T

Difficulty Level: Medium

Subject Heading: Monetary History

26. Inflation reflects a rise in prices not offset by increases in quality.

Answer: T

Difficulty Level: Medium

Subject Heading: Inflation

27. Inflation reflects a rise in prices whether or not that rise in prices is offset by an increase in quality.

Answer: F

Difficulty Level: Medium

Subject Heading: Inflation

28. A central bank defines and regulates the amount of the money supply in the financial system.

Answer: T

Difficulty Level: Easy

Subject Heading: Money Supply

29. The faster the rate of circulation of the money supply, the greater the output of goods and services in an economy.

Answer: T

Difficulty Level: Medium

Subject Heading: Money Supply

30. Currently, the international monetary system can best be described as a managed floating exchange rate system.

Answer: T

Difficulty Level: Medium

Subject Heading: Exchange Rates

31. Currently, the international monetary system can best be described as a managed pegged exchange rate system.

Answer: F

Difficulty Level: Medium

Subject Heading: Exchange Rates

32. Primitive economies have little occasion to exchange goods or services.

Answer: T
Difficulty Level: Easy
Subject Heading: Monetary System

33. M1 money supply consists of currency, travelers' checks, demand deposits, and other checkable deposits.

Answer: T
Difficulty Level: Easy
Subject Heading: Money Supply

34. Because credit card balances and limits can affect the rate of turnover of money supply and contribute to money supply expansion, these balances and limits are included in the M3 definition of money supply.

Answer: F
Difficulty Level: Medium
Subject Heading: Money Supply

35. The monetary system is responsible for carrying out the financial functions of creating and transferring money.

Answer: T
Difficulty Level: Medium
Subject Heading: Monetary System

36. Money is anything generally accepted as a means of paying for goods and services and for paying off debts.

Answer: T
Difficulty Level: Easy
Subject Heading: Basic Monetary Concepts

37. Money is perfectly liquid.

Answer: T
Difficulty Level: Easy
Subject Heading: Basic Monetary Concepts

38. Fiat money generally becomes worthless if the issuing government – such as the Confederate government of the Civil War – fails.

Answer: T
Difficulty Level: Medium
Subject Heading: Monetary History

39. Representative full-bodied money is paper money that is backed by an amount of precious metal equal in value to the face amount of the paper money.

Answer: T
Difficulty Level: Medium

Subject Heading: Monetary History

40. Deposit money is backed by the creditworthiness of the depository institution that issued the deposit.

Answer: T

Difficulty Level: Easy

Subject Heading: Money Supply

41. Fiat money is paper money fully backed by a precious metal such as gold.

Answer: F

Difficulty Level: Easy

Subject Heading: Monetary History

42. Most of the financial assets added to the M2 definition of money supply provide their owners with a higher rate of return than do M1 financial assets.

Answer: T

Difficulty Level: Medium

Subject Heading: Money Supply

43. Keynesians believe that when the supply of money exceeds the quantity demanded, the public will spend more rapidly causing inflation.

Answer: F

Difficulty Level: Medium

Subject Heading: Keynesians vs. Monetarists

44. Keynesians believe that a change in the money supply first causes a change in interest rate levels, which, in turn, alters the demand for goods and services.

Answer: T

Difficulty Level: Medium

Subject Heading: Keynesians vs. Monetarists

45. M3 money supply includes M2 plus large time deposits and institutional MMMFs, repurchase agreements, and Eurodollar deposits.

Answer: T

Difficulty Level: Medium

Subject Heading: Money Supply

46. A bimetallic standard is a monetary standard based on two metals, usually silver and gold.

Answer: T

Difficulty Level: Easy

Subject Heading: Monetary History

47. Full-bodied money is a monetary standard based on two metals, usually silver and gold.

Answer: F
Difficulty Level: Easy
Subject Heading: Monetary History

48. Representative full-bodied money is paper money fully backed by a precious metal such as gold.

Answer: T
Difficulty Level: Easy
Subject Heading: Monetary History

49. The role of financial institutions in a country's financial system is to accumulate and invest savings.

Answer: T
Difficulty Level: Easy
Subject Heading: Financial Institutions

50. The role of financial markets in a country's financial system is to accumulate and invest savings.

Answer: F
Difficulty Level: Easy
Subject Heading: Financial Markets

MULTIPLE-CHOICE QUESTIONS

1. Paper money fully backed by a precious metal and issued by the government is called:
- a. fiat money
 - b. representative full-bodied money
 - c. full-bodied money
 - d. credit money

Answer: b

Difficulty Level: Easy

Subject Heading: Monetary History

2. Fiat money is:
- a. representative full-bodied money
 - b. full-bodied money
 - c. legal tender proclaimed to be money by law
 - d. all of the above

Answer: c

Difficulty Level: Easy

Subject Heading: Monetary History

3. With a mint ratio of 15 to 1 between gold and silver and a market ratio of 15.5 to 1:
- a. gold should go out of circulation
 - b. silver should go out of circulation
 - c. paper money will predominate
 - d. the bimetallic standard will be stable

Answer: a

Difficulty Level: Medium

Subject Heading: Monetary History

4. The U.S. bimetallic standard was based on:
- a. gold and platinum
 - b. silver and gold
 - c. gold and copper
 - d. silver and copper

Answer: b

Difficulty Level: Easy

Subject Heading: Monetary History

5. Which of the following would not be considered liquid?
- a. money in savings accounts
 - b. coins

- c. currency
- d. all the above are liquid
- e. none of the above are liquid

Answer: d

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

6. In the U.S., the dollar was defined in terms of gold until the:

- a. present time
- b. 1980s
- c. 1970s
- d. 1960s

Answer: c

Difficulty Level: Easy

Subject Heading: Monetary History

7. When it is a means of paying for goods and services and discharging debts, money is referred to as a:

- a. store of purchasing power
- b. medium of exchange
- c. standard of value
- d. liquid asset

Answer: b

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

8. Which of the following statements are correct?

- a. debit cards provide for the immediate direct transfer of deposit accounts
- b. debit cards may be used for cash advances, even when there is not sufficient money in the account
- c. debit cards may not be used to make cash withdrawals from automatic teller machines
- d. all the above
- e. none of the above

Answer: a

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

9. An international gold standard dominated international trade during:

- a. World War II
- b. 1880–1914

- c. 1944–1971
- d. 1914–1932

Answer: b

Difficulty Level: Easy

Subject Heading: Monetary History

10. The only paper money of significance in the economy today is:

- a. silver certificates
- b. demand deposits
- c. greenbacks
- d. Federal Reserve notes

Answer: d

Difficulty Level: Easy

Subject Heading: Monetary History

11. Token coins are:

- a. full-bodied coins
- b. coins containing metal of less value than their stated value
- c. coins containing gold or silver
- d. representative full-bodied money

Answer: b

Difficulty Level: Easy

Subject Heading: Monetary History

12. Which of the following describes the basic function of money?

- a. store of purchasing power
- b. standard of value
- c. medium of exchange
- d. liquidity

Answer: c

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

13. The M1 definition of the money supply includes which of the following items?

- a. currency
- b. demand deposits and other checkable deposits at depository institutions
- c. travelers' checks
- d. all of the above

Answer: d

Difficulty Level: Medium

Subject Heading: Money Supply

14. Money market funds are not included in which of the following definitions of the money supply?
- a. M1
 - b. M2
 - c. M3
 - d. M4 or L

Answer: a

Difficulty Level: Easy

Subject Heading: Money Supply

15. Travelers' checks are included in which of the following money supply definitions?
- a. M1
 - b. M2
 - c. M3
 - d. all of the above

Answer: d

Difficulty Level: Easy

Subject Heading: Money Supply

16. Large time deposits (over \$100,000) are included in which of the following money supply definitions?
- a. M1
 - b. M2
 - c. M3
 - d. all of the above

Answer: c

Difficulty Level: Easy

Subject Heading: Money Supply

17. Overnight repurchase agreements are not included in which of the following definition of the money supply?
- a. M1
 - b. M2
 - c. M3
 - d. all of the above

Answer: a

Difficulty Level: Easy

Subject Heading: Money Supply

18. Credit money includes:

- a. checking accounts at commercial banks
- b. checkable deposits at savings and loan associations
- c. checking accounts at credit unions
- d. all the above
- e. none of the above

Answer: b

Difficulty Level: Medium

Subject Heading: Money Supply

19. Eurodollars are included in

- a. M1
- b. M2
- c. both the above
- d. neither the above

Answer: d

Difficulty Level: Easy

Subject Heading: Money Supply

20. Which of the following statements is false?

- a. M1, M2, and M3 include demand deposits and other checkable deposits.
- b. Term repurchase agreements are included in M3, but not in M1 and M2.
- c. U.S. savings bonds are included in M3, but not in M1 and M2.
- d. Travelers' checks are included in M1, M2, and M3.

Answer: c

Difficulty Level: Medium

Subject Heading: Money Supply

21. Which of the following statements is false?

- a. The Bretton Wood System of fixed exchange rates was maintained until 1975.
- b. Under the Bretton Wood System, one ounce of gold was set equal to \$35.
- c. Under the Bretton Wood System, each participating country had its currency pegged to either gold or the U.S. dollar.
- d. All of the above statements are correct.

Answer: a

Difficulty Level: Hard

Subject Heading: Monetary History

22. Which of the following statements about greenbacks is false?

- a. Greenbacks were money issued by the U.S. government to help finance the Civil War.
- b. Greenbacks were fiat money.
- c. Greenbacks were not redeemable for gold or silver.
- d. All of the above statements are correct.

Answer: d

Difficulty Level: Medium

Subject Heading: Monetary History

23. Which of the following statements is false?

- a. Legal tender is money backed only by government credit.
- b. Credit money represents any circulating medium which has little real value relative to its monetary value.
- c. The Monetary Act of 1792 resulted in an early monetary system that relied almost exclusively on the use of foreign coins.
- d. All of the above statements are correct.

Answer: d

Difficulty Level: Hard

Subject Heading: Monetary History

24. Which of the following are not included in M1?

- a. negotiable orders of withdrawal
- b. automatic transfer service accounts
- c. money market deposit accounts
- d. credit union share draft accounts

Answer: c

Difficulty Level: Medium

Subject Heading: Money Supply

25. Money market mutual funds do which of the following?

- a. issue shares to customers
- b. invest in liquid instruments
- c. invest in interest-bearing debt instruments
- d. all the above

Answer: d

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

26. Which of the following statements is most correct?

- a. Both gold and silver have now been completely removed from any monetary role in the U.S. economy.

- b. Savings deposits and small time deposits at depository institutions constitute part of the M1 money supply definition.
- c. Fiat money is gold coins issued by central banks under authority of the government.
- d. The monetary system of the United States today is based on a dollar standard, and the dollar can be converted into gold.

Answer: a

Difficulty Level: Hard

Subject Heading: Monetary History

27. Which of the following statements about L is not true?

- a. L is the broadest measure of money available to the public
- b. L includes commercial paper
- c. L includes mortgages
- d. All of the above statements are correct.

Answer: c

Difficulty Level: Medium

Subject Heading: Money Supply

28. Which of the following statements is false?

- a. Money can always function as a store of purchasing power, even if its value is relatively unstable.
- b. The ease with which an asset can be exchanged for money or other assets is referred to as liquidity.
- c. Credit money is any circulating medium which has little intrinsic value relative to its monetary value.
- d. In the future, electronic funds transfer systems may be used to such an extent that a virtually checkless society may result.

Answer: a

Difficulty Level: Hard

Subject Heading: Basic Monetary Concepts

29. Which of the following statements is false?

- a. Until the Civil War, the federal government was the major issuer of paper money.
- b. In order for traders in early economies to accept or barter for items, the supply of the item had to be limited in relation to the desire of individual in the economy to have the item.
- c. Collectors of old coins and paper money are referred to as numismatists.
- d. All of the above statements are false.

Answer: a

Difficulty Level: Hard

Subject Heading: Monetary History

30. Fiat money is:

- a. paper money issued by central banks with full metallic backing
- b. government notes representing a specific amount of gold in storage
- c. full-bodied money
- d. none of the above

Answer: d

Difficulty Level: Medium

Subject Heading: Monetary History

31. Which of the following is not a component of the M1 definition of the money supply?

- a. travelers' checks
- b. savings and small time deposits at depository institutions
- c. currency held by the non-bank public
- d. demand deposits at depository institutions

Answer: b

Difficulty Level: Medium

Subject Heading: Money Supply

32. Any circulating money which has little real value relative to its monetary value is called:

- a. credit money
- b. representative full-bodied money
- c. full-bodied money
- d. all of the above

Answer: a

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

33. Inflation is:

- a. an increase in the purchasing power of money
- b. a decrease in the quality of goods and services
- c. an increase in the prices of goods and services not offset by increases in the quality of those goods and services
- d. a measure of the money supply

Answer: c

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

34. A breakdown in the international gold standard occurred during:

- a. the 1880–1914 period
- b. World War I
- c. World War II
- d. the depression of the 1930s

Answer: b

Difficulty Level: Medium

Subject Heading: Monetary History

35. The function of money that expresses prices and contracts for deferred payments in terms of the monetary unit is referred to as:
- a. store of purchasing power
 - b. standard of value
 - c. medium of exchange
 - d. credit money

Answer: b

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

36. Money market funds are not included in which of the following definitions of the money supply?
- a. M1
 - b. M2
 - c. M3
 - d. M4 or L

Answer: a

Difficulty Level: Easy

Subject Heading: Money Supply

37. The public's holdings of U.S. savings bonds are included in which of the following money supply definitions?
- a. M1
 - b. M2
 - c. M3
 - d. M4 or L

Answer: d

Difficulty Level: Easy

Subject Heading: Money Supply

38. Credit card usage:
- a. may expand money supply
 - b. may contract the money supply

- c. neither expands nor contracts money supply
- d. none of the above

Answer: a

Difficulty Level: Easy

Subject Heading: Money Supply

39. Which are included in the money supply?

- a. outstanding balances on credit cards
- b. credit card limits
- c. both the above
- d. neither the above

Answer: d

Difficulty Level: Easy

Subject Heading: Money Supply

40. The supply of a currency in international markets depends largely on the:

- a. Federal Reserve System
- b. imports of the issuing country
- c. amount of exports that currency will buy from the issuing country
- d. confidence of market participants in the restraint and ability of the monetary authority issuing the currency

Answer: b

Difficulty Level: Medium

Subject Heading: International Monetary System

41. The advantages claimed for a bimetallic standard were not gained in actual practice because:

- a. one of the metals disappeared from circulation because the mint and market ratios were not the same
- b. the supply of gold was inadequate
- c. the supply of silver and gold was not balanced among the nations that were on a bimetallic standard
- d. all of the above

Answer: a

Difficulty Level: Medium

Subject Heading: Monetary History

42. Barter involves the exchange of:

- a. goods for gold
- b. goods for silver
- c. gold for silver

d. goods and services

Answer: d

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

43. When coins have an intrinsic value equal to the value of the metal they contain, they are referred to as:
- a. full-bodied money
 - b. representative full-bodied money
 - c. token coins
 - d. all of the above

Answer: a

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

44. Coining money and determining its value has been a governmental function in some cultures for about:
- a. 3,000 years
 - b. 2,500 years
 - c. 1,900 years
 - d. 1,000 years

Answer: b

Difficulty Level: Easy

Subject Heading: Monetary History

45. Checks may be cleared by:
- a. the Federal Reserve
 - b. banks in the banking system
 - c. both the above
 - d. neither the above

Answer: c

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

46. Which of the following are not depository institutions?
- a. The Federal Reserve
 - b. credit unions
 - c. savings banks
 - d. commercial banks

Answer: a
Difficulty Level: Easy
Subject Heading: Financial Institutions

47. "Continentials" were backed by:
- a. gold
 - b. silver
 - c. possible future tax revenues
 - d. none of the above

Answer: c
Difficulty Level: Easy
Subject Heading: Monetary History

48. Today's Federal Reserve notes are:
- a. backed by gold
 - b. backed by silver
 - c. fiat money
 - d. none of the above

Answer: c
Difficulty Level: Medium
Subject Heading: Basic Monetary Concepts

49. Credit money is backed by:
- a. gold
 - b. silver
 - c. creditworthiness of the issuer
 - d. creditworthiness of the depository institution
 - e. none of the above

Answer: c
Difficulty Level: Easy
Subject Heading: Basic Monetary Concepts

50. Deposit money is backed by:
- a. gold
 - b. silver
 - c. creditworthiness of the issuer
 - d. creditworthiness of the depository institution
 - e. none of the above

Answer: d
Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

51. All of the following are important components of a financial system except:
- a. government and private policy makers
 - b. a monetary system
 - c. the international monetary fund
 - d. financial institutions and markets

Answer: c

Difficulty Level: Medium

Subject Heading: Financial System

52. The savings-investment process
- a. involves the transfer of business funds to individuals for investing in stocks and bonds
 - b. involves the transfer of business funds to individuals for investing in homes
 - c. involves the transfer in individual savings to the Federal Government.
 - d. involves the transfer in individual savings to business firms in exchange for their securities.

Answer: d

Difficulty Level: Medium

Subject Heading: Financial System

53. All of the following are normally categorized as financial institutions EXCEPT:
- a. S&Ls
 - b. brokerage firms
 - c. commercial banks
 - d. credit unions

Answer: b

Difficulty Level: Medium

Subject Heading: Financial Institutions

54. All Money must perform the following basic functions EXCEPT:
- a. guarantee of validity
 - b. medium of exchange
 - c. standard of value
 - d. store of value

Answer: a

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

55. M3 includes all of the following EXCEPT:
- a. checking and savings

- b. MMMFs
- c. stocks and bonds
- d. all of the above are included

Answer: c

Difficulty Level: Medium

Subject Heading: Money Supply

56. The velocity of money measures:

- a. the quantity of money in an economy
- b. the rate of circulation of the money supply
- c. the level of inflation caused by the money supply
- d. none of the above

Answer: b

Difficulty Level: Medium

Subject Heading: Money Supply

57. The three functions of money are:

- a. medium of exchange, store of value, and measure of liquidity
- b. conduit for international trade, store of value, and standard of value
- c. medium of exchange, store of value, and standard of value
- d. inflation hedge, measure of liquidity, and medium of exchange

Answer: c

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

58. Money decreed to be “legal tender” for the payment of debts is money backed by:

- a. precious metals
- b. commodities
- c. government creditworthiness
- d. gold or silver

Answer: c

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

59. An increase in the general overall prices of goods and services that is not offset by increases in the quality of those goods and services is the definition for:

- a. liquidity
- b. inflation
- c. full-bodied goods and services
- d. store of purchasing power

Answer: c

Difficulty Level: Medium
Subject Heading: Basic Monetary Concepts

60. Functions of money include all of the following EXCEPT:

- a. Money serves as a medium of exchange.
- b. Money may be held as a store of value.
- c. Money serves as a standard of value.
- d. All of the above are functions of money.

Answer: d

Difficulty Level: Medium
Subject Heading: Basic Monetary Concepts

61. Functions of money include all of the following EXCEPT:

- a. Money serves as a medium of exchange.
- b. Money may be held as a store of value.
- c. Money determines the wealth of a nation.
- d. All of the above are functions of money.

Answer: c

Difficulty Level: Medium
Subject Heading: Basic Monetary Concepts

62. A monetary standard based on two metals, usually silver and gold is called:

- a. full-bodied money
- b. a bimetallic standard
- c. Fiat money
- d. none of the above

Answer: b

Difficulty Level: Easy
Subject Heading: Monetary History

63. Paper money backed by a precious metal is called:

- a. full-bodied money
- b. a bimetallic standard
- c. representative full-bodied money
- d. none of the above

Answer: c

Difficulty Level: Easy
Subject Heading: Basic Monetary Concepts

64. Legal tender proclaimed to be money by law is called:

- a. representative money
- b. fiat money
- c. representative full-bodied money
- d. none of the above

Answer: b

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

65. The broadest definition of money supply is:

- a. M1
- b. M2
- c. M3
- d. M4

Answer: c

Difficulty Level: Easy

Subject Heading: Money Supply

66. The narrowest definition of money supply is:

- a. M1
- b. M2
- c. M3
- d. M4

Answer: a

Difficulty Level: Easy

Subject Heading: Money Supply

67. A measure of the output of goods and services in an economy is called:

- a. output
- b. money supply
- c. gross domestic product
- d. velocity

Answer: c

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

68. If the money supply for an economy is \$3 trillion and the velocity of money is 4.5, then GDP is:

- a. \$0.67 trillion
- b. \$1.5 trillion
- c. \$7.5 trillion
- d. \$13.5 trillion

Answer: d

Difficulty Level: Medium
Subject Heading: Money Supply

69. If the money supply for an economy is \$3 trillion and GDP is \$10 trillion, then the velocity of money is:
- a. \$3.33 trillion
 - b. \$13.0 trillion
 - c. \$7.0 trillion
 - d. \$30 trillion

Answer: a
Difficulty Level: Medium
Subject Heading: Money Supply

70. A rise in prices not offset by increases in quality is called:
- a. deflation
 - b. inflation
 - c. stagflation
 - d. none of the above

Answer: b
Difficulty Level: Easy
Subject Heading: Basic Monetary Concepts

71. A rise in prices that is fully offset by increases in quality is called:
- a. deflation
 - b. inflation
 - c. stagflation
 - d. none of the above

Answer: d
Difficulty Level: Easy
Subject Heading: Basic Monetary Concepts

72. A major factor in the severity of the 2007-09 financial crisis was the massive amounts of debt taken on by:
- a. individuals
 - b. business
 - c. government
 - d. all of the above
 - e. none of the above

Answer: d
Difficulty Level: Medium
Subject Heading: 2007-2009 Financial Crisis

73. A major factor in the severity of the 2007-09 financial crisis was the massive reduction in the level of debt taken on by:
- a. individuals
 - b. business
 - c. government
 - d. all of the above
 - e. none of the above

Answer: e

Difficulty Level: Medium

Subject Heading: 2007-2009 Financial Crisis

74. Creating and transferring money are integral parts of the:
- a. investment process
 - b. capital formation process
 - c. savings process
 - d. none of the above

Answer: b

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

75. Historically speaking, _____ taken as a group has/have generally been a surplus economic unit in the past:
- a. individuals
 - b. business
 - c. government
 - d. a and c
 - e. none of the above

Answer: a

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

76. _____ include the direct ownership of land, buildings or homes, equipment, inventories, durable goods, and even precious metals.
- a. financial assets
 - b. real assets
 - c. government investments
 - d. all of the above
 - e. none of the above

Answer: b

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

77. _____ is money, debt instruments, equity securities, and other financial contracts that are backed by real assets and the earning abilities of issuers.
- a. financial assets
 - b. real assets
 - c. government investments
 - d. all of the above
 - e. none of the above

Answer: a

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

78. _____ is anything generally accepted as a means of paying for goods and services and for paying off debts. It must be easily divisible, so that exchanges can take place in small or large quantities; relatively inexpensive to store and transfer; and reasonably stable in value over time.
- a. A financial asset
 - b. A real asset
 - c. money
 - d. all of the above
 - e. none of the above

Answer: c

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

79. _____ accounts are increasingly used to make direct deposits to, and payments from, checkable deposit accounts.
- a. single balance
 - b. money market
 - c. automatic transfer service (ATS)
 - d. capital market
 - e. none of the above

Answer: c

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

80. _____ are debt instruments or securities with maturities of one year or less and have low default risk and high liquidity.
- a. capital market securities
 - b. money market securities
 - c. derivative securities
 - d. all of the above
 - e. none of the above

Answer: b

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

81. A _____ is a short-term debt instrument issued by commercial banks in denominations of \$100,000 or more with typical maturities ranging from one month to one year that have an active secondary market that allows short-term investors to easily match their cash or liquidity needs when they arise.
- a. negotiable certificate of deposit (NCD)
 - b. A repurchase agreement
 - c. government bond
 - d. money market security
 - e. none of the above

Answer: a

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

82. _____ is a short-term debt instrument issued by commercial banks in denominations of \$100,000 or more with typical maturities ranging from one month to one year that have an active secondary market that allows short-term investors to easily match their cash or liquidity needs when they arise.
- a. A negotiable certificate of deposit (NCD)
 - b. A repurchase agreement
 - c. Commercial paper
 - d. Government bond
 - e. all of the above

Answer: a

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

83. _____ is a short-term unsecured promissory note issued by a high credit-quality corporation with maturities of one to three months in length with an active secondary money.
- a. A negotiable certificate of deposit (NCD)
 - b. A repurchase agreement
 - c. Commercial paper
 - d. Government bond
 - e. none of the above

Answer: c

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

84. _____ is a promise of future payment issued by a firm and guaranteed by a bank that is used to finance international trade with typical maturities ranging from one to six months.
- a. A negotiable certificate of deposit (NCD)
 - b. A repurchase agreement

- c. Commercial paper
- d. A banker's acceptance
- e. none of the above

Answer: d

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

85. _____ is a short-term debt security sold by a business firm or financial institution to another business or institution where the seller agrees to buy back the security at a specified price and date.
- a. A negotiable certificate of deposit (NCD)
 - b. A repurchase agreement
 - c. Commercial paper
 - d. A banker's acceptance
 - e. none of the above

Answer: b

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

86. _____ are very short-term loans, usually with maturities of one day to one week made between depository institutions.
- a. Overnight loans
 - b. Commercial paper
 - c. Federal funds
 - d. A banker's acceptance
 - e. none of the above

Answer: c

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

87. The velocity of money measures the rate of circulation of the money supply and can be expressed by the following equation (note: GDP = gross domestic product and MS = money supply):
- a. $VM = GDP/MS$
 - b. $VM = MS/GDP$
 - c. $VM = MS \times GDP$
 - d. all of the above
 - e. none of the above

Answer: a

Difficulty Level: Medium

Subject Heading: Money Supply

88. If annual GDP is \$100 billion and the MS is \$20 billion, the velocity of money (VM) is _____.

- a. 2
- b. 5
- c. 20
- d. 50
- e. none of the above

Answer: b

Difficulty Level: Medium

Subject Heading: Money Supply

89. _____ believe that when the money supply exceeds the amount of money demanded, the public will spend more rapidly, causing real economic activity or prices to rise. They also believe that a too-rapid rate of growth in the money supply will ultimately result in rising prices or inflation because excess money will be used to bid up the prices of existing goods.
- a. Monetarists
 - b. Keynesians
 - c. Neo Classicalists
 - d. none of the above

Answer: a

Difficulty Level: Medium

Subject Heading: Keynesians vs. Monetarists

90. _____ believe that a change in the money supply first causes a change in interest rate levels, which, in turn, alters the demand for goods and services.
- a. Monetarists
 - b. Keynesians
 - c. Neo Classicalists
 - d. none of the above

Answer: b

Difficulty Level: Medium

Subject Heading: Keynesians vs. Monetarists

91. A major international development occurred on January 1, 2002, when twelve European countries gave up their individual currencies and adopted a unified currency called the _____.
- a. Dollar
 - b. Pound
 - c. Euro
 - d. none of the above

Answer: c

Difficulty Level: Easy

Subject Heading: Monetary History

92. The price level of goods and services may be expressed as the ratio of _____.

- a. GDP to real output
- b. real output to GDP
- c. Velocity to GDP
- d. real output to velocity

Answer: a

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

93. Real output in an economy may be expressed as the ratio of _____.

- a. GDP to real output
- b. real output to GDP
- c. price level to GDP
- d. GDP to price level

Answer: d

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

94. _____ provide predetermined credit limits to consumers at the time the cards are issued.

- a. debit cards
- b. ATM cards
- c. credit cards
- d. none of the above

Answer: c

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

95. _____ issue shares to customers and invest the proceeds in highly liquid, very-short-maturity, interest-bearing debt instruments called money market investments.

- a. Money market mutual funds (MMMFs)
- b. Corporations
- c. Insurance companies
- d. none of the above

Answer: a

Difficulty Level: Easy

Subject Heading: Basic Monetary Concepts

96. _____ is the sum of an individual's money, real assets, and financial assets or claims against others less the individual's debt obligations.

- a. Portfolio value
- b. Individual net worth
- c. Personal wealth
- d. Investment value
- e. None of the above

Answer: b

Difficulty Level: Medium

Subject Heading: Basic Monetary Concepts

97. _____ issue shares to customers and invest the proceeds in highly liquid, very-short-maturity, interest-bearing debt instruments called money market investments.
- a. Commercial banks
 - b. Corporations
 - c. Insurance companies
 - d. none of the above

Answer: d

Difficulty Level: Medium

Subject Heading: Financial Institutions

98. The price level of goods and services may be expressed as the ratio of _____.
- a. GDP to GNP
 - b. real output to GDP
 - c. Velocity to GDP
 - d. real output to velocity
 - e. none of the above

Answer: d

Difficulty Level: Medium

Subject Heading: Inflation

99. _____ believe that a change in the money supply first causes a change in interest rate levels, which, in turn, alters the demand for goods and services.
- a. Monetarists
 - b. Supply Siders
 - c. Neo Classicalists
 - d. none of the above

Answer: d

Difficulty Level: Medium

Subject Heading: Keynesians vs. Monetarists