

Economics of Money, Banking, and Financial Markets, 5e (Mishkin)
Chapter 3 What Is Money?

3.1 Meaning of Money

1) To an economist, _____ is anything that is generally accepted in payment for goods or services or in the repayment of debt.

- A) wealth
- B) income
- C) money
- D) credit

Answer: C

Ques Status: Revised

AACSB: Application of Knowledge

2) Money is

- A) anything that is generally accepted in payment for goods or services or in the repayment of debt.
- B) a flow of earnings per unit of time.
- C) the total collection of pieces of property that are a store of value.
- D) always based on a precious metal like gold or silver.

Answer: A

Ques Status: Revised

AACSB: Application of Knowledge

3) Currency includes

- A) paper money and coins.
- B) paper money, coins, and checks.
- C) paper money and checks.
- D) paper money, coins, checks, and savings deposits.

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

4) Even economists have no single, precise definition of money because

- A) money supply statistics are a state secret.
- B) the Federal Reserve does not employ or report different measures of the money supply.
- C) the "moneyness" or liquidity of an asset is a matter of degree.
- D) economists find disagreement interesting and refuse to agree for ideological reasons.

Answer: C

Ques Status: Previous Edition

AACSB: Reflective Thinking

5) The total collection of pieces of property that serve to store value is a person's

- A) wealth.
- B) income.
- C) money.
- D) credit.

Answer: A

Ques Status: Previous Edition

AACSB: Application of Knowledge

6) A person's house is part of her

- A) money.
- B) income.
- C) liabilities.
- D) wealth.

Answer: D

Ques Status: Previous Edition

AACSB: Analytical Thinking

7) _____ is used to make purchases while _____ is the total collection of pieces of property that serve to store value.

- A) Money; income
- B) Wealth; income
- C) Income; money
- D) Money; wealth

Answer: D

Ques Status: Previous Edition

AACSB: Reflective Thinking

8) _____ is a flow of earnings per unit of time.

- A) Income
- B) Money
- C) Wealth
- D) Currency

Answer: A

Ques Status: Previous Edition

AACSB: Application of Knowledge

9) An individual's annual salary is her

- A) money.
- B) income.
- C) wealth.
- D) liabilities.

Answer: B

Ques Status: Previous Edition

AACSB: Analytical Thinking

- 10) When we say that money is a stock variable, we mean that
- A) the quantity of money is measured at a given point in time.
 - B) we must attach a time period to the measure.
 - C) it is sold in the equity market.
 - D) money never loses purchasing power.

Answer: A

Ques Status: Previous Edition

AACSB: Reflective Thinking

- 11) The difference between money and income is that
- A) money is a flow and income is a stock.
 - B) money is a stock and income is a flow.
 - C) there is no difference—money and income are both stocks.
 - D) there is no difference—money and income are both flows.

Answer: B

Ques Status: Previous Edition

AACSB: Reflective Thinking

- 12) Which of the following is a TRUE statement?
- A) Money and income are flow variables.
 - B) Money is a flow variable.
 - C) Income is a flow variable.
 - D) Money and income are stock variables.

Answer: C

Ques Status: Previous Edition

AACSB: Reflective Thinking

- 13) Which of the following statements uses the economists' definition of money?
- A) I plan to earn a lot of money over the summer.
 - B) Betsy is rich—she has a lot of money.
 - C) I hope that I have enough money to buy my lunch today.
 - D) The job with New Company gave me the opportunity to earn more money.

Answer: C

Ques Status: Previous Edition

AACSB: Analytical Thinking

- 14) When we say that income is a flow variable, we mean that
- A) we must attach a time period to the measure for it to make sense.
 - B) it is measured at a given point in time.
 - C) it moves through our hands quickly.
 - D) the value is constantly changing.

Answer: A

Ques Status: New

AACSB: Reflective Thinking

3.2 Functions of Money

1) Of money's three functions, the one that distinguishes money from other assets is its function as a

- A) store of value.
- B) unit of account.
- C) standard of deferred payment.
- D) medium of exchange.

Answer: D

Ques Status: Previous Edition

AACSB: Reflective Thinking

2) If peanuts serve as a medium of exchange, a unit of account, and a store of value, then peanuts are

- A) bank deposits.
- B) reserves.
- C) money.
- D) loanable funds.

Answer: C

Ques Status: Previous Edition

AACSB: Reflective Thinking

3) _____ are the time and resources spent trying to exchange goods and services.

- A) Bargaining costs
- B) Transaction costs
- C) Contracting costs
- D) Barter costs

Answer: B

Ques Status: Previous Edition

AACSB: Application of Knowledge

4) Compared to an economy that uses a medium of exchange, in a barter economy

- A) transaction costs are higher.
- B) transaction costs are lower.
- C) liquidity costs are higher.
- D) liquidity costs are lower.

Answer: A

Ques Status: Previous Edition

AACSB: Reflective Thinking

5) When compared to exchange systems that rely on money, disadvantages of the barter system include

- A) the requirement of a double coincidence of wants.
- B) lowering the cost of exchanging goods over time.
- C) lowering the cost of exchange to those who would specialize.
- D) encouraging specialization and the division of labor.

Answer: A

Ques Status: Previous Edition

AACSB: Reflective Thinking

6) The conversion of a barter economy to one that uses money

- A) increases efficiency by reducing the need to exchange goods and services.
- B) increases efficiency by reducing the need to specialize.
- C) increases efficiency by reducing transactions costs.
- D) does not increase economic efficiency.

Answer: C

Ques Status: Previous Edition

AACSB: Reflective Thinking

7) Which of the following statements best explains how the use of money in an economy increases economic efficiency?

- A) Money increases economic efficiency because it is costless to produce.
- B) Money increases economic efficiency because it discourages specialization.
- C) Money increases economic efficiency because it decreases transactions costs.
- D) Money cannot have an effect on economic efficiency.

Answer: C

Ques Status: Previous Edition

AACSB: Reflective Thinking

8) When economists say that money promotes _____, they mean that money encourages specialization and the division of labor.

- A) bargaining
- B) contracting
- C) efficiency
- D) greed

Answer: C

Ques Status: Previous Edition

AACSB: Reflective Thinking

9) Money _____ transaction costs, allowing people to specialize in what they do best.

- A) reduces
- B) increases
- C) enhances
- D) eliminates

Answer: A

Ques Status: Previous Edition

AACSB: Application of Knowledge

- 10) For a commodity to function effectively as money it must be
- A) easily standardized, making it easy to ascertain its value.
 - B) difficult to make change.
 - C) deteriorate quickly so that its supply does not become too large.
 - D) hard to carry around.

Answer: A

Ques Status: Previous Edition

AACSB: Reflective Thinking

- 11) All of the following are necessary criteria for a commodity to function as money EXCEPT
- A) it must deteriorate quickly.
 - B) it must be divisible.
 - C) it must be easy to carry.
 - D) it must be widely accepted.

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

- 12) Whatever a society uses as money, the distinguishing characteristic is that it must
- A) be completely inflation proof.
 - B) be generally acceptable as payment for goods and services or in the repayment of debt.
 - C) contain gold.
 - D) be produced by the government.

Answer: B

Ques Status: Previous Edition

AACSB: Reflective Thinking

- 13) All but the most primitive societies use money as a medium of exchange, implying that
- A) the use of money is economically efficient.
 - B) barter exchange is economically efficient.
 - C) barter exchange cannot work outside the family.
 - D) inflation is not a concern.

Answer: A

Ques Status: Previous Edition

AACSB: Reflective Thinking

- 14) Kevin purchasing concert tickets with a \$100 bill is an example of the _____ function of money.
- A) medium of exchange
 - B) unit of account
 - C) store of value
 - D) specialization

Answer: A

Ques Status: Revised

AACSB: Analytical Thinking

15) When money prices are used to facilitate comparisons of value, money is said to function as a

- A) unit of account.
- B) medium of exchange.
- C) store of value.
- D) payments-system ruler.

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

16) When there are many goods in a barter system,

- A) transactions costs are minimized.
- B) there are multiple prices for each good.
- C) there is only one store of value.
- D) exchange of services is impossible.

Answer: B

Ques Status: Revised

AACSB: Reflective Thinking

17) In a barter economy the number of prices in an economy with N goods is

- A) $[N(N - 1)]/2$.
- B) $N(N/2)$.
- C) $2N$.
- D) $N(N/2) - 1$.

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

18) If there are five goods in a barter economy, one needs to know ten prices in order to exchange one good for another. If, however, there are ten goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.

- A) 20
- B) 25
- C) 30
- D) 45

Answer: D

Ques Status: Previous Edition

AACSB: Analytical Thinking

19) If there are four goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.

- A) 8
- B) 6
- C) 5
- D) 4

Answer: B

Ques Status: Previous Edition

AACSB: Analytical Thinking

20) Because it is a unit of account, money

- A) increases transaction costs.
- B) reduces the number of prices that need to be calculated.
- C) does not earn interest.
- D) discourages specialization.

Answer: B

Ques Status: Previous Edition

AACSB: Reflective Thinking

21) Dennis notices that jackets are on sale for \$99. In this case money is functioning as a

- A) medium of exchange.
- B) unit of account.
- C) store of value.
- D) payments-system ruler.

Answer: B

Ques Status: Previous Edition

AACSB: Analytical Thinking

22) As a store of value, money

- A) does not earn interest.
- B) cannot be a durable asset.
- C) must be currency.
- D) is a way of saving for future purchases.

Answer: D

Ques Status: Previous Edition

AACSB: Analytical Thinking

23) Patrick places his pocket change into his savings bank on his desk each evening. By his actions, Patrick indicates that he believes that money is a

- A) medium of exchange.
- B) unit of account.
- C) store of value.
- D) unit of specialization.

Answer: C

Ques Status: Previous Edition

AACSB: Analytical Thinking

24) _____ is the relative ease and speed with which an asset can be converted into a medium of exchange.

- A) Efficiency
- B) Liquidity
- C) Deflation
- D) Specialization

Answer: B

Ques Status: Previous Edition

AACSB: Application of Knowledge

25) Increasing transactions costs of selling an asset make the asset

- A) more valuable.
- B) more liquid.
- C) less liquid.
- D) more moneylike.

Answer: C

Ques Status: Previous Edition

AACSB: Reflective Thinking

26) Since it does not have to be converted into anything else to make purchases, _____ is the most liquid asset.

- A) money
- B) stock
- C) artwork
- D) gold

Answer: A

Ques Status: Previous Edition

AACSB: Reflective Thinking

27) Of the following assets, the least liquid is

- A) stocks.
- B) traveler's checks.
- C) checking deposits.
- D) a house.

Answer: D

Ques Status: Previous Edition

AACSB: Analytical Thinking

28) Ranking assets from most liquid to least liquid, the correct order is

- A) savings bonds; house; currency.
- B) currency; savings bonds; house.
- C) currency; house; savings bonds.
- D) house; savings bonds; currency.

Answer: B

Ques Status: Previous Edition

AACSB: Analytical Thinking

29) People hold money even during inflationary episodes when other assets prove to be better stores of value. This can be explained by the fact that money is

- A) extremely liquid.
- B) a unique good for which there are no substitutes.
- C) the only thing accepted in economic exchange.
- D) backed by gold.

Answer: A

Ques Status: Previous Edition

AACSB: Reflective Thinking

30) If the price level doubles, the value of money

- A) doubles.
- B) more than doubles, due to scale economies.
- C) rises but does not double, due to diminishing returns.
- D) falls by 50 percent.

Answer: D

Ques Status: Previous Edition

AACSB: Analytical Thinking

31) A fall in the level of prices

- A) does not affect the value of money.
- B) has an uncertain effect on the value of money.
- C) increases the value of money.
- D) reduces the value of money.

Answer: C

Ques Status: Previous Edition

AACSB: Analytical Thinking

32) A hyperinflation is

- A) a period of extreme inflation generally greater than 50% per month.
- B) a period of anxiety caused by rising prices.
- C) an increase in output caused by higher prices.
- D) impossible today because of tighter regulations.

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

33) During hyperinflations

- A) the value of money rises rapidly.
- B) money no longer functions as a good store of value and people may resort to barter transactions on a much larger scale.
- C) middle-class savers benefit as prices rise.
- D) money's value remains fixed to the price level; that is, if prices double so does the value of money.

Answer: B

Ques Status: Previous Edition

AACSB: Reflective Thinking

34) Because inflation in Germany after World War I sometimes exceeded 1,000% per month, one can conclude that the German economy suffered from

- A) deflation.
- B) disinflation.
- C) hyperinflation.
- D) superdeflation.

Answer: C

Ques Status: Previous Edition

AACSB: Application of Knowledge

35) If merchants in the country Zed choose to close their doors, preferring to be stuck with rotting merchandise rather than worthless currency, then one can conclude that Zed is experiencing a

- A) superdeflation.
- B) hyperdeflation.
- C) disinflation.
- D) hyperinflation.

Answer: D

Ques Status: Previous Edition

AACSB: Reflective Thinking

36) During the German hyperinflation after World War I, transactions costs skyrocketed. As a result, not surprisingly, output

- A) declined sharply.
- B) increased dramatically.
- C) did not change.
- D) grew at a much smaller pace than prior to the war.

Answer: A

Ques Status: New

AACSB: Application of Knowledge

37) Explain how cigarettes could be called "money" in prisoner-of-war camps of World War II. Answer: The cigarettes performed the three functions of money. They served as the medium of exchange because individuals did exchange items for cigarettes. They served as a unit of account because prices were quoted in terms of the number of cigarettes required for the exchange. They served as a store of value because an individual would be willing to save their cigarettes even if they did not smoke because they believed that they could exchange the cigarettes for something that they did want at some time in the future.

Ques Status: Previous Edition

AACSB: Reflective Thinking

3.3 Evolution of the Payments System

- 1) The payments system is
- A) the method of conducting transactions in the economy.
 - B) used by union officials to set salary caps.
 - C) an illegal method of rewarding contracts.
 - D) used by your employer to determine salary increases.

Answer: A

Ques Status: Previous Edition

AACSB: Reflective Thinking

- 2) As the payments system evolves from barter to a monetary system,
- A) commodity money is likely to precede the use of paper currency.
 - B) transaction costs increase.
 - C) the number of prices that need to be calculated increase rather dramatically.
 - D) specialization decreases.

Answer: A

Ques Status: Previous Edition

AACSB: Reflective Thinking

- 3) _____ money could be used for some other purpose other than as a medium of exchange, for example, gold coins could be melted down and turned into gold jewelry.

- A) Commodity
- B) Fiat
- C) Paper
- D) Electronic

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

- 4) A disadvantage of _____ made from precious metals is that it is very heavy and hard to transport from one place to another.

- A) commodity money
- B) fiat money
- C) electronic money
- D) paper money

Answer: A

Ques Status: Previous Edition

AACSB: Reflective Thinking

5) Paper currency that has been declared legal tender but is not convertible into coins or precious metals is called _____ money.

- A) commodity
- B) fiat
- C) electronic
- D) funny

Answer: B

Ques Status: Previous Edition

AACSB: Analytical Thinking

6) When paper currency is decreed by governments as legal tender, legally it must be

- A) paper currency backed by gold.
- B) a precious metal such as gold or silver.
- C) accepted as payment for debts.
- D) convertible into an electronic payment.

Answer: C

Ques Status: Previous Edition

AACSB: Reflective Thinking

7) The evolution of the payments system from barter to precious metals, then to fiat money, then to checks can best be understood as a consequence of the fact that

- A) paper is more costly to produce than precious metals.
- B) precious metals were not generally acceptable.
- C) precious metals were difficult to carry and transport.
- D) paper money is less accepted than checks.

Answer: C

Ques Status: Previous Edition

AACSB: Reflective Thinking

8) As a means of payment, coins have the major drawback that they

- A) are heavy and hard to transport.
- B) are hard to counterfeit.
- C) are not the most liquid assets.
- D) must be backed by gold.

Answer: A

Ques Status: Revised

AACSB: Reflective Thinking

9) Although _____ currency is lighter than coins made of metals, a disadvantage arising from modern technology is the ease of _____.

- A) paper; transport
- B) commodity; counterfeiting
- C) fiat; transport
- D) paper; counterfeiting

Answer: D

Ques Status: Previous Edition

AACSB: Information Technology

- 10) An advantage of checks as a method of payment is that
- A) they provide convenient receipts for purchases.
 - B) they can never be stolen.
 - C) they are more widely accepted than currency.
 - D) the funds from a deposited check are available for use immediately.

Answer: A

Ques Status: Revised

AACSB: Reflective Thinking

- 11) The evolution of the payments system from barter to precious metals, then to fiat money, then to checks can best be understood as a consequence of

- A) government regulations designed to improve the efficiency of the payments system.
- B) government regulations designed to promote the safety of the payments system.
- C) innovations that reduced the costs of exchanging goods and services.
- D) competition among firms to make it easier for customers to purchase their products.

Answer: C

Ques Status: Previous Edition

AACSB: Reflective Thinking

- 12) Compared to an electronic payments system, a payments system based on checks has the major drawback that

- A) checks are less costly to process.
- B) checks take longer to process, meaning that it may take several days before the depositor can get her cash.
- C) fraud may be more difficult to commit when paper receipts are eliminated.
- D) legal liability is more clearly defined.

Answer: B

Ques Status: Previous Edition

AACSB: Reflective Thinking

- 13) Which of the following sequences accurately describes the evolution of the payments system?

- A) barter, coins made of precious metals, paper currency, checks, electronic funds transfers
- B) barter, coins made of precious metals, checks, paper currency, electronic funds transfers
- C) barter, checks, paper currency, coins made of precious metals, electronic funds transfers
- D) barter, checks, paper currency, electronic funds transfers

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

14) An important characteristic of the modern payments system has been the rapidly increasing use of

- A) checks and decreasing use of currency.
- B) electronic fund transfers.
- C) commodity monies.
- D) fiat money.

Answer: B

Ques Status: Previous Edition

AACSB: Information Technology

15) Which of the following is NOT a form of e-money?

- A) a debit card
- B) a credit card
- C) a stored-value card
- D) a smart card

Answer: B

Ques Status: Previous Edition

AACSB: Information Technology

16) A smart card is the equivalent of

- A) cash.
- B) savings bonds.
- C) savings deposits.
- D) certificates of deposit.

Answer: A

Ques Status: Previous Edition

AACSB: Information Technology

17) An electronic payments system has not completely replaced the paper payments system because of all of the following reasons EXCEPT

- A) expensive equipment is necessary to set up the system.
- B) security concerns.
- C) privacy concerns.
- D) transportation costs.

Answer: D

Ques Status: Previous Edition

AACSB: Information Technology

18) In explaining the evolution of money

- A) government regulation is the most important factor.
- B) commodity money, because it is valued more highly, tends to drive out paper money.
- C) new forms of money evolve to lower transaction costs.
- D) paper money is always backed by gold and therefore more desirable than checks.

Answer: C

Ques Status: Previous Edition

AACSB: Reflective Thinking

19) A feature of Bitcoin, a new type of electronic money, that make it attractive as a medium of exchange is

- A) anonymous transactions.
- B) volatility of value.
- C) heavy regulations by the central bank.
- D) wide acceptance by businesses.

Answer: A

Ques Status: Previous Edition

AACSB: Application of Knowledge

20) Bitcoin fails to satisfy which two of the three functions of money?

- A) unit of account and store of value
- B) medium of exchange and unit of account
- C) medium of exchange and store of value
- D) bitcoin satisfies all of the functions of money

Answer: A

Ques Status: New

AACSB: Application of Knowledge

21) What factors have slowed down the movement to a system where all payments are made electronically?

Answer: The equipment necessary to set up the system is expensive, security of the information, and privacy concerns are issues that need to be addressed before an electronic payments system will be widely accepted.

Ques Status: Previous Edition

AACSB: Reflective Thinking

3.4 Measuring Money

1) Recent financial innovation makes the Federal Reserve's job of conducting monetary policy

- A) easier, since the Fed now knows what to consider money.
- B) more difficult, since the Fed now knows what to consider money.
- C) easier, since the Fed no longer knows what to consider money.
- D) more difficult, since the Fed no longer knows what to consider money.

Answer: D

Ques Status: Previous Edition

AACSB: Reflective Thinking

2) Defining money becomes _____ difficult as the pace of financial innovation _____.

- A) less; quickens
- B) more; quickens
- C) more; slows
- D) more; stops

Answer: B

Ques Status: Previous Edition

AACSB: Information Technology

- 3) Monetary aggregates are
- A) measures of the money supply reported by the Federal Reserve.
 - B) measures of the wealth of individuals.
 - C) never redefined since "money" never changes.
 - D) reported by the Treasury Department annually.

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

- 4) _____ is the narrowest monetary aggregate that the Fed reports.
- A) M0
 - B) M1
 - C) M2
 - D) M3

Answer: B

Ques Status: Previous Edition

AACSB: Analytical Thinking

- 5) The currency component includes paper money and coins held in
- A) bank vaults.
 - B) ATMs.
 - C) the hands of the nonbank public.
 - D) the central bank.

Answer: C

Ques Status: Previous Edition

AACSB: Analytical Thinking

- 6) The other checkable deposits component of the M1 measure reported by the Federal Reserve includes
- A) negotiable time deposits.
 - B) money market mutual fund shares.
 - C) automatic transfer from savings accounts.
 - D) money market deposit accounts.

Answer: C

Ques Status: Previous Edition

AACSB: Analytical Thinking

- 7) The components of the U.S. M1 money supply are demand deposits and other checkable deposits plus
- A) currency.
 - B) currency plus savings deposits.
 - C) currency plus traveler's checks.
 - D) currency plus traveler's checks plus money market deposits.

Answer: C

Ques Status: Revised

AACSB: Analytical Thinking

8) The M1 measure of money includes

- A) small denomination time deposits.
- B) traveler's checks.
- C) money market deposit accounts.
- D) money market mutual fund shares.

Answer: B

Ques Status: Previous Edition

AACSB: Analytical Thinking

9) Which of the following is NOT included in the measure of M1?

- A) NOW accounts
- B) demand deposits
- C) currency
- D) savings deposits

Answer: D

Ques Status: Previous Edition

AACSB: Analytical Thinking

10) Which of the following is NOT included in the M1 measure of money but is included in the M2 measure of money?

- A) currency
- B) traveler's checks
- C) demand deposits
- D) small-denomination time deposits

Answer: D

Ques Status: Previous Edition

AACSB: Analytical Thinking

11) Which of the following is included in both M1 and M2?

- A) currency
- B) savings deposits
- C) small-denomination time deposits
- D) money market deposit accounts

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

12) Which of the following is NOT included in the monetary aggregate M2?

- A) currency
- B) savings bonds
- C) traveler's checks
- D) checking deposits

Answer: B

Ques Status: Previous Edition

AACSB: Analytical Thinking

13) Which of the following is included in M2 but NOT in M1?

- A) NOW accounts
- B) demand deposits
- C) currency
- D) money market mutual fund shares (retail)

Answer: D

Ques Status: Previous Edition

AACSB: Analytical Thinking

14) Of the following, the largest measure is

- A) money market deposit accounts.
- B) demand deposits.
- C) M1.
- D) M2.

Answer: D

Ques Status: Revised

AACSB: Analytical Thinking

15) If an individual redeems a U.S. savings bond for currency

- A) M1 stays the same and M2 decreases.
- B) M1 increases and M2 increases.
- C) M1 increases and M2 stays the same.
- D) M1 stays the same and M2 stays the same.

Answer: B

Ques Status: Previous Edition

AACSB: Analytical Thinking

16) If an individual moves money from a small-denomination time deposit to a demand deposit account

- A) M1 increases and M2 stays the same.
- B) M1 stays the same and M2 increases.
- C) M1 stays the same and M2 stays the same.
- D) M1 increases and M2 decreases.

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

17) If an individual moves money from a demand deposit account to a money market deposit account

- A) M1 decreases and M2 stays the same.
- B) M1 stays the same and M2 increases.
- C) M1 stays the same and M2 stays the same.
- D) M1 increases and M2 decreases.

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

18) If an individual moves money from a savings deposit account to a money market deposit account

- A) M1 decreases and M2 stays the same.
- B) M1 stays the same and M2 increases.
- C) M1 stays the same and M2 stays the same.
- D) M1 increases and M2 decreases.

Answer: C

Ques Status: Previous Edition

AACSB: Analytical Thinking

19) If an individual moves money from currency to a demand deposit account

- A) M1 decreases and M2 stays the same.
- B) M1 stays the same and M2 increases.
- C) M1 stays the same and M2 stays the same.
- D) M1 increases and M2 stays the same.

Answer: C

Ques Status: Previous Edition

AACSB: Analytical Thinking

20) If an individual moves money from a money market deposit account to currency

- A) M1 increases and M2 stays the same.
- B) M1 stays the same and M2 increases.
- C) M1 stays the same and M2 stays the same.
- D) M1 increases and M2 decreases.

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

21) If an individual uses money from a demand deposit account to purchase a U.S. savings bond

- A) M1 decreases and M2 stays the same.
- B) M1 stays the same and M2 increases.
- C) M1 stays the same and M2 stays the same.
- D) M1 decreases and M2 decreases.

Answer: D

Ques Status: Previous Edition

AACSB: Analytical Thinking

22) Small-denomination time deposits refer to certificates of deposit with a denomination of less than

- A) \$1,000.
- B) \$10,000.
- C) \$100,000.
- D) \$1,000,000.

Answer: C

Ques Status: Previous Edition

AACSB: Analytical Thinking

23) The M2 monetary aggregate contains everything that is in M1 plus other assets that are highly _____ (can be turned into cash quickly at very little cost).

- A) liquid
- B) stable
- C) consistent
- D) efficient

Answer: A

Ques Status: Previous Edition

AACSB: Analytical Thinking

24) Which of the following statements accurately describes the two measures of the money supply?

- A) The two measures do not move together, so they cannot be used interchangeably by policymakers.
- B) The two measures' movements closely parallel each other, even on a month-to-month basis.
- C) Short-run movements in the money supply are extremely reliable.
- D) M2 is the narrowest measure the Fed reports.

Answer: A

Ques Status: Previous Edition

AACSB: Reflective Thinking

25) From 2004 to 2007, the growth rates of M1 and M2

- A) were identical.
- B) both increased but at different rates.
- C) both decreased but at different rates.
- D) moved in opposite directions.

Answer: D

Ques Status: Previous Edition

AACSB: Application of Knowledge

26) The Federal Reserve publishes the data on the monetary aggregates each week on

- A) Thursday.
- B) Monday.
- C) Friday.
- D) Wednesday.

Answer: A

Ques Status: New

AACSB: Information Technology

27) Why are most of the U.S. dollars held outside of the United States?

Answer: Concern about high inflation eroding the value of their own currency causes many people in foreign countries to hold U.S. dollars as a hedge against inflation risk.

Ques Status: Previous Edition

AACSB: Reflective Thinking