

The monetary system

[Economics](#), [Currency](#)



Chapter 29 The Monetary System TRUE/FALSE 1. In an economy that relies on barter, trade requires a double-coincidence of wants. ANS: T DIF: 1 REF: 29-0 NAT: Analytic LOC: The role of money TOP: Barter MSC: Definitional 2. Joe wants to trade eggs for sausage. Lashonda wants to trade sausage for eggs. Joe and Lashonda have a double-coincidence of wants. ANS: T DIF: 1 REF: 29-0 NAT: Analytic LOC: The role of money TOP: Barter MSC: Definitional 3. The use of money allows trade to be roundabout. ANS: T DIF: 1 REF: 29-0 NAT: Analytic LOC: The role of money TOP: Money | Trade MSC: Definitional 4. Roundabout trade is beneficial for an economy. ANS: T DIF: 1 REF: 29-0 NAT: Analytic LOC: The role of money TOP: Money | Trade MSC: Definitional 5. Money allows people to specialize in what they do best, thereby raising everyone's standard of living. ANS: T DIF: 2 REF: 29-0 NAT: Analytic LOC: The role of money TOP: Money MSC: Interpretive 6. When money functions as a unit of account, then it cannot be commodity money. ANS: F DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Interpretive 7. Demand deposits are balances in bank accounts that depositors can access by writing a check. ANS: T DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Demand deposits MSC: Definitional 8. According to economists, a collection of valuable jewels is not money. ANS: T DIF: 2 REF: 29-1 NAT: Analytic LOC: The Study of economics, and the definitions of economics TOP: Money MSC: Interpretive 9. A debit card is more similar to a credit card than to a check. ANS: F DIF: 2 REF: 29-1 NAT: Analytic LOC: The Study of economics, and the definitions of economics TOP: Money MSC: Interpretive 10. Gary's wealth is \$1 million. Economists would say that Gary has \$1 million worth of money. ANS: F DIF: 1 REF: 29-1 NAT:

Analytic LOC: The role of money TOP: Money MSC: Definitional 11. Marc puts prices on surfboards and skateboards at his sporting goods store. He is using money as a unit of account. ANS: T DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Definitional 12. Sandra routinely uses currency to purchase her groceries. She is using money as a unit of account. ANS: F DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Definitional 13. Bottles of very fine wine are less liquid than demand deposits. ANS: T DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Liquidity MSC: Interpretive 14. U. S. dollars are an example of commodity money and hides used to make trades are an example of fiat money. ANS: F DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Commodity money MSC: Definitional 15. When the Soviet Union began breaking up in the late 1980s, cigarettes began replacing the ruble as the medium of exchange even though the ruble was legal tender. The cigarettes provide an example of fiat money. ANS: F DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Commodity money MSC: Interpretive 16. In order for currency to be widely used as a medium of exchange, it is sufficient for the government to designate it as legal tender. ANS: F DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Currency MSC: Definitional 17. M1 includes savings deposits. ANS: F DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money supply MSC: Definitional 18. M2 is both larger and more liquid than M1. ANS: F DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money supply | Liquidity MSC: Interpretive 19. Credit cards are a medium of exchange. ANS: F DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Medium of exchange MSC: Definitional 20. The series of bank failures in

1907 occurred despite the creation of the Federal Reserve many years earlier. ANS: F DIF: 1 REF: 29-2 NAT: Analytic LOC: The role of money TOP: Federal Reserve System MSC: Interpretive 21. Federal Reserve governors are given long terms to insulate them from politics. ANS: T DIF: 2 REF: 29-2 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System MSC: Interpretive 22. The Federal Reserve is a privately operated commercial bank. ANS: F DIF: 1 REF: 29-2 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System MSC: Definitional 23. The Federal Reserve was created in 1913 after a series of bank failures in 1907. ANS: T DIF: 1 REF: 29-2 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System MSC: Definitional 24. Members of the Board of Governors are appointed by the president of the U. S. and confirmed by the U. S. Senate. ANS: T DIF: 1 REF: 29-2 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System MSC: Definitional 25. Monetary policy is determined by a committee whose voting members include all the presidents of the regional Federal Reserve Banks. ANS: F DIF: 1 REF: 29-2 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Open Market Committee MSC: Definitional 26. The Federal Reserve primarily uses open-market operations to change the money supply. ANS: T DIF: 1 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Open-market operations MSC: Definitional 27. If the Fed buys bonds in the open market, the money supply decreases. ANS: F DIF: 1 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Open-market operations MSC: Applicative 28. Banks cannot influence the money supply if they hold all deposits in reserve. ANS: T DIF: 2 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Banks | Money supply MSC: Interpretive 29.

Banks still could contribute to changes in the money supply, even if they were required to hold all deposits in reserve. ANS: F DIF: 1 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Fractional-reserve banking MSC: Applicative 30. If banks hold any amount of their deposits in reserve, then they do not have the ability to influence the money supply. ANS: F DIF: 2 REF: 29-3 NAT: Analytic LOC: The role of money TOP: Reserves | Money supply MSC: Interpretive 31. When the Federal Reserve decreases the discount rate, the quantity of reserves increases and the money supply increases. ANS: T DIF: 2 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Discount rate | Reserves | Money supply MSC: Interpretive 32. The money multiplier equals $1/(1 - R)$, where R represents the reserve ratio. ANS: F DIF: 1 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Money multiplier MSC: Definitional 33. Assume that when \$100 of new reserves enter the banking system, the money supply ultimately increases by \$625. Assume also that no banks hold excess reserves and that the entire money supply consists of bank deposits. If, at a point in time, reserves for all banks amount to \$500, then at that same point in time, loans for all banks amount to \$2, 625. ANS: T DIF: 3 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Money multiplier MSC: Analytical 34. Assume that when \$100 of new reserves enter the banking system, the money supply ultimately increases by \$800. Assume also that no banks hold excess reserves and that the entire money supply consists of bank deposits. If, at a point in time, reserves for all banks amount to \$750, then at that same point in time, loans for all banks amount to \$6, 000. ANS: F DIF: 3 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Money multiplier MSC:

Analytical 35. As banks create money, they create wealth. ANS: F DIF: 1 REF: 29-3 NAT: Analytic LOC: The role of money TOP: Banks | Money MSC: Definitional 36. The money supply of Hooba is \$10, 000 in a 100-percent-reserve banking system. If Hooba decreases the reserve requirement to 10 percent, the money supply could increase by no more than \$9, 000. ANS: F DIF: 2 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Money multiplier MSC: Applicative 37. If the Fed decreases reserve requirements, the money supply will increase. ANS: T DIF: 1 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserve requirements MSC: Applicative 38. An increase in reserve requirements increases reserves and decreases the money supply. ANS: F DIF: 2 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserve requirements MSC: Applicative 39. Just after the terrorist attack on September 11, 2001, the Fed stood ready to lend financial institutions funds. When the Fed did this, it was acting in its role of lender of last resort. ANS: T DIF: 1 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Lender of last resort MSC: Definitional 40. Because of the multiple tools at its disposal, the Fed can control the money supply very precisely. ANS: F DIF: 2 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System MSC: Interpretive 41. In the months of November and December, people in the United States hold a larger part of their money in the form of currency because they intend to shop and travel for the holidays. As a result, other things the same the money supply increases. ANS: F DIF: 2 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Currency | Money multiplier MSC: Applicative 42. Other things the same, if banks decide to hold a smaller part of their deposits as excess

reserves, the money supply will fall. ANS: F DIF: 2 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Reserves MSC: Applicative 43. Bank runs and the accompanying increase in the money multiplier caused the U. S. money supply to rise by 28 percent from 1929 to 1933. ANS: F DIF: 2 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Banks | Money multiplier MSC: Definitional SHORT ANSWER 1. Economists argue that the move from barter to money increased trade and production. How is this possible? ANS: The use of money allows people to trade more easily. When it is easier to trade, specialization increases. Increased specialization increases production and the standard of living. DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Barter | Money MSC: Interpretive 2. What is the difference between money and wealth? ANS: Money is defined as the set of assets in the economy that people regularly use to buy goods and services from other people. Wealth includes all assets, both monetary and nonmonetary. DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Definitional 3. Which of the three functions of money are commonly met by each of the following assets in the U. S. economy? | a. | paper dollar | | b. | precious metals | | c. | collectibles such as baseball cards, stamps, and antiques | ANS: | a. | medium of exchange, store of value, unit of account | | b. | store of value | | c. | store of value | DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Interpretive 4. Are credit cards and debit cards money? What's the difference between credit and debit cards? ANS: Neither credit cards nor debit cards are money, but credit cards are very different from debit cards. Credit cards are not a medium of exchange, but are a means of deferring payment. Debit cards allow the user

immediate access to deposits in a bank account. These deposits are part of the money supply. DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Interpretive 5. What is the difference between commodity money and fiat money? Why do people accept fiat money in trade for goods and services? ANS: Commodity money has "intrinsic value," or value in uses other than as money. Fiat money is established as money by the government. It has very little, if any, intrinsic value. Although fiat money has no intrinsic value, people accept it in trade when they are confident that others will also accept it. The government's decree that fiat currency serves as legal tender increases this confidence. DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Commodity money MSC: Definitional 6. What does the text mean by the question, "Where Is All the Currency?" How does it answer the question? ANS: The amount of currency per person is nearly \$3,300. Most people carry far less than this. The question is, "where is the rest of the currency?" Foreigners and criminals hold some. In some foreign countries, people have more confidence in the U. S. dollar than in their own currency. Criminals use currency because it makes it harder for the government to trace their activities than if they used bank accounts. So they may hold above average amounts of currency. DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Currency MSC: Definitional 7. What is meant by the term "lender of last resort?" In what circumstances might the Fed be a lender of last resort? ANS: A "lender of last resort" is a lender to those who cannot borrow anywhere else. The Fed might loan funds to a solvent bank that is experiencing a bank run and so doesn't currently have enough cash on hand to meet depositors' demands. DIF: 1 REF: 29-2 NAT: Analytic LOC:

Monetary and fiscal policy TOP: Lender of last resort MSC: Interpretive 8.

Compare the Board of Governors and the Federal Open Market Committee.

ANS: The Board of Governors runs the Federal Reserve. It has seven members who are appointed by the U. S. president with the advice and consent of the Senate. The voting members of the Federal Open Market Committee include the 7 members of the Board of Governors and 5 of the 12 regional bank presidents, rotated among the 12 regional presidents, but always including the president of the New York Fed. The chair of the BOG also serves as chair of the FOMC. The FOMC meets about every six weeks in Washington, D. C. to discuss the condition of the economy and to consider changes in monetary policy. DIF: 1 REF: 29-2 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System MSC: Definitional 9. What makes the New York Federal Reserve regional bank so important? ANS: The president of the New York Federal Reserve regional bank is the only regional bank president who is always a voting member of the FOMC, the committee that determines monetary policy. New York is the traditional financial center of the U. S. economy and the New York Federal Reserve Bank conducts all open-market transactions. DIF: 1 REF: 29-2 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System MSC: Definitional 10. Designers of the Federal Reserve System were concerned that the Fed might form policy favorable to one part of the country or to a particular party. What are some ways that the organization of the Fed reflects such concerns? ANS: | 1. | The president appoints the Board of Governors, but the Senate must approve them. | | 2. | The seven members of the Board of Governors serve 14-year terms, so it is unlikely that a single president will have | | | appointed most of

them. | | 3. | The Federal Reserve has 12 regional banks. | | 4. | The presidents of the regional banks serve as voting members of the FOMC on a rotating basis. | DIF: 2 REF: 29-2 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System MSC: Interpretive 11. Which two of the Ten Principles of Economics imply that the Fed can profoundly affect the economy? ANS: | 1. | Prices rise when the government prints too much money. | | 2. | There is a short-run tradeoff between inflation and unemployment. | DIF: 2 REF: 29-2 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System MSC: Interpretive 12. Explain why banks can influence the money supply if the required reserve ratio is less than 100 percent. ANS: When the reserve requirement is less than 100 percent, banks can lend out deposits. The money they lend out is redeposited. In this way, deposits can be greater than reserves. Since deposits are greater under fractional-reserve banking and since deposits are part of the money supply, the money supply will be greater under fractional-reserve banking. DIF: 2 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Banks | Money supply MSC: Interpretive 13. If the reserve ratio is 20 percent, how much money can be created from \$100 of reserves? Show your work. ANS: $(1/.20)$ [pic] $\$100 = \500 . DIF: 1 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Money multiplier MSC: Applicative 14. Draw a simple T-account for First National Bank which has \$5, 000 of deposits, a required reserve ratio of 10 percent, and excess reserves of \$300. Make sure you balance sheet balances. ANS: | First National Bank | | Assets | | Liabilities | | | Reserves | \$800 | Deposits |\$5, 000 | | Loans |\$4, 200 | | | DIF: 2 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Banks MSC: Applicative 15. Explain how

each of the following changes the money supply. | a. | the Fed buys bonds | | b. | the Fed raises the discount rate | | c. | the Fed raises the reserve requirement | ANS: | a. | If the Fed buys bonds, it pays for them with reserves so banks will have more reserves and can lend more which will create | | | more deposits and so more money. | | b. | If the Fed raises the discount rate banks will borrow less from the Fed, and so have fewer reserves, which decreases the | | | money supply. | | c. | If the Fed raises the reserve requirement, banks will have to hold more of their deposits as reserves and so will have less | | | to lend out. With less to lend out, deposits and the money supply decrease. | DIF: 2 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System | Money supply MSC: Interpretive 16. Describe the two things that limit the precision of the Fed's control of the money supply and explain how each limits that control. ANS: First, the Fed does not control the amount of currency that households choose to hold relative to deposits. If households decide to hold relatively more currency, banks have fewer reserves and the money supply decreases. Second, the Fed cannot control the amount banks choose to hold as excess reserves. If bankers decide to lend out less of their deposits, the money supply will decrease. DIF: 3 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Federal Reserve System | Money supply MSC: Interpretive 17. During the early 1930s there were a number of bank failures in the United States. What did this do to the money supply? The New York Federal Reserve Bank advocated open market purchases. Would these purchases have reversed the change in the money supply and helped banks? Explain. ANS: Bank failures cause people to lose confidence in the banking system so that

deposits fall and banks have less to lend. Further, under these circumstances banks are probably more cautious about lending. Both of these reactions would tend to decrease the money supply. Open market purchases increase bank reserves and so would have at least made the decrease smaller. The increase in reserves would also have provided banks with greater liquidity to meet the demands of customers who wanted to make withdrawals. In short, while the actions of depositors and banks lowered the money supply, the Fed could have increased it by buying bonds. DIF: 3 REF: 29-3 NAT: Analytic LOC: Monetary and fiscal policy TOP: Monetary policy | Open-market operations MSC: Analytical 18. Suppose that in a country the total holdings of banks were as follows: required reserves = \$45 million excess reserves = \$15 million deposits = \$750 million loans = \$600 million Treasury bonds = \$90 million Show that the balance sheet balances if these are the only assets and liabilities. Assuming that people hold no currency, what happens to each of these values if the central bank changes the reserve requirement ratio to 3%, banks still want to hold the same percentage of excess reserves, and banks don't change their holdings of Treasury bonds? How much does the money supply change by? ANS: The only liability is deposits which equal \$750 million. Total reserves are \$60 billion which summed with loans, \$600 million, and Treasury bonds \$90 million = \$750. Since liabilities equal assets, the balance sheet balances. Initially banks need to hold 6% on reserve and want to hold 2% as excess reserves. When the Fed lowers the reserve requirement ratio to 2%, the bank only has to hold \$15 million on reserve and so now has \$30 million of excess reserves. Between the 2% requirement and the 2% for excess the reserve ratio is now 4% and the multiplier is now

1/. $0.04 = 25$. So, the decrease in the reserve requirement ratio leads to an increase in deposits of \$750 million. (Also, total reserves are \$60 million and the multiplier is now 25, so deposits should be \$1, 500 million.) Required reserves are 2% of \$1, 500 million of deposits = \$30 million. Excess reserves are 2% of \$1, 500 million of deposits and so now also equal \$30 million.

Deposits rose by as much as the money supply since people don't hold currency, so that the money supply rose by \$750 million. The additional deposits came by way of additional lending, so loans should have also increased by \$750 million. Also, since deposits rose by \$750 million, liabilities should have risen by \$750 million. Under the given assumptions, this means loans should have risen by \$750 million. Overall the money supply rose by \$750 as explained above. DIF: 3 REF: 29-2 | 29-3 NAT:

Analytic LOC: Monetary and fiscal policy TOP: Reserves | Money multiplier

MSC: Analytical Sec00 - The Monetary System MULTIPLE CHOICE 1. The

double coincidence of wants | a. | is required when there is no item in an economy that is widely accepted in exchange for goods and services. | | b. | is required in an economy that relies on barter. | | c. | is a hindrance to the allocation of resources when it is required for trade. | | d. | All of the above are correct. | ANS: D DIF: 1 REF: 29-0 NAT: Analytic LOC: The role of money

TOP: Barter MSC: Interpretive 2. In an economy that relies upon barter, | a. | trade does not require a double coincidence of wants. | | b. | scarce resources are allocated just as easily as they are in economies that do not rely upon barter. | | c. | there is no item in the economy that is widely accepted in exchange for goods and services. | | d. | All of the above are correct. | ANS: C DIF: 1 REF: 29-0 NAT: Analytic LOC: The role of money TOP:

Barter MSC: Interpretive 3. Which of the following is an example of barter? |

a. | A parent gives a teenager a \$10 bill in exchange for her babysitting services. | | b. | A homeowner gives an exterminator a check for \$50 in exchange for extermination services. | | c. | A barber gives a plumber a haircut in exchange for the plumber fixing the barber's leaky faucet. | | d. | All of the above are examples of barter. | ANS: C DIF: 2 REF: 29-0 NAT:

Analytic LOC: The study of economics, and the definitions of economics TOP:

Barter MSC: Applicative 4. Consider five high school students working on homework in study hall. | Rosie | has math homework | wants science homework | | Bob | has English homework | wants history homework | | Piper | has math homework | wants science homework | | Dewey | has science homework | wants English homework | | Molly | has science homework | wants math homework | Which of the following pairs of students has a double coincidence of wants? | a. | Rosie and Piper | | b. | Piper and Molly | | c. | Dewey and Molly | | d. | Bob and Dewey | ANS: B DIF: 1 REF: 29-0 NAT:

Analytic LOC: The study of economics, and the definitions of economics TOP:

Barter MSC: Applicative 5. Consider five individuals with different occupations. | Mary | provides legal advice | wants knives sharpened | | Clark | grows tomatoes | wants legal advice | | Nathan | styles hair | wants tomatoes | | Polly | brews beer | wants knives sharpened | | Paul | sharpens knives | wants beer | Which of the following pairs of individuals has a double coincidence of wants? | a. | Mary and Clark | | b. | Clark and Nathan | | c. | Nathan and Polly | | d. | Polly and Paul | ANS: D DIF: 1 REF: 29-0 NAT: Analytic

LOC: The study of economics, and the definitions of economics TOP: Barter

MSC: Applicative 6. Consider four survivors on an island. | Rupert | has

machete | wants fishing spear | | Amber | has cooking pot | wants fishing spear | | Rob | has fishing spear | wants machete | | Tom | has cooking pot | wants machete | Which of the following pairs of survivors has a double-coincidence of wants? | a. | Rupert with Amber, and Rob with Tom | | b. | Amber with Tom | | c. | Rupert with Rob | | d. | None of the above are correct. | ANS: C DIF: 1 REF: 29-0 NAT: Analytic LOC: The role of money TOP: Barter MSC: Applicative 7. Consider the following traders who meet. | Bob | has an apple | wants an orange | | Ted | has an orange | wants a peach | | Mary | has a pear | wants an apple | | Alice | has a peach | wants an orange | Which, if any, pairs of traders has a double coincidence of wants? | a. | Bob with Alice | | b. | Ted with Alice | | c. | Bob with Mary, Ted with Bob, and Ted with Alice | | d. | None of the pairs above has a double coincidence of wants. | ANS: B DIF: 1 REF: 29-0 NAT: Analytic LOC: The role of money TOP: Barter MSC: Applicative 8. The existence of money leads to | a. | greater specialization in production, but not to a higher standard of living. | | b. | a higher standard of living, but not to greater specialization. | | c. | greater specialization and to a higher standard of living. | | d. | neither greater specialization nor to a higher standard of living. | ANS: C DIF: 1 REF: 29-0 NAT: Analytic LOC: The role of money TOP: Money MSC: Definitional 9. When we say that trade is roundabout we mean that | a. | people sometimes trade goods for goods. | | b. | trades require a double coincidence of wants. | | c. | currency is accepted primarily to make further trades. | | d. | people must spend time searching for the products they wish to purchase. | ANS: C DIF: 1 REF: 29-0 NAT: Analytic LOC: The role of money TOP: Trade MSC: Definitional Sec01 - The Monetary System - The Meaning of Money MULTIPLE CHOICE 1. Economists

use the term money to refer to | a. | all wealth. | | b. | all assets, including real assets and financial assets. | | c. | all financial assets, but real assets are not regarded as money. | | d. | those types of wealth that are regularly accepted by sellers in exchange for goods and services. | ANS: D DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Definitional 2. Money | a. | is a perfect store of value. | | b. | is the most liquid asset. | | c. | has intrinsic value, regardless of which form it takes. | | d. | All of the above are correct. | ANS: B DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money | Liquidity MSC: Interpretive 3. Money is the most liquid asset available because | a. | it is a store of value. | | b. | it is a medium of exchange. | | c. | it is a unit of account. | | d. | it has intrinsic value. | ANS: B DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money | Liquidity MSC: Interpretive 4. The ease with which an asset can be | a. | traded for another asset determines whether or not that asset is a unit of account. | | b. | transported from one place to another determines whether or not that asset could serve as fiat money. | | c. | converted into a store of value determines the liquidity of that asset. | | d. | converted into the economy's medium of exchange determines the liquidity of that asset. | ANS: D DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Liquidity MSC: Interpretive 5. When we want to measure and record economic value, we use money as the | a. | liquid asset. | | b. | medium of exchange. | | c. | unit of account. | | d. | store of value. | ANS: C DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Definitional 6. In which of the following sets of assets are the assets correctly ranked from most liquid to least liquid? | a. | money, bonds, cars, houses | | b. | money, cars, houses, bonds | | c. |

bonds, money, cars, houses | | d. | bonds, cars, money, houses | ANS: A DIF:

2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Liquidity MSC:

Interpretive 7. Which of the following lists ranks types of assets from most liquid to least liquid? | a. | currency, demand deposits, money market mutual funds | | b. | currency, money market mutual funds, demand deposits | | c. | money market mutual funds, demand deposits, currency | | d. | demand deposits, money market mutual funds, currency | ANS: A DIF: 2 REF: 29-1

NAT: Analytic LOC: The study of economics, and the definitions of economics

TOP: Liquidity MSC: Applicative 8. Which list ranks assets from most to least

liquid? | a. | currency, fine art, stocks | | b. | currency, stocks, fine art | | c. | fine art, currency, stocks | | d. | fine art, stocks, currency | ANS: B DIF: 1 REF:

29-1 NAT: Analytic LOC: The role of money TOP: Liquidity MSC: Definitional 9.

When an economy uses silver as money, then that economy's money | a. | serves as a store of value but not as a medium of exchange. | | b. | serves as a medium of exchange but not as a unit of account. | | c. | is fiat money. | | d. | has intrinsic value. | ANS: D DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of

money TOP: Money | Intrinsic value MSC: Interpretive 10. For purposes of

analyzing the money stock and its relationship to relevant economic

variables, money is best thought of as | a. | those items that can be readily accessed and used to buy goods and services. | | b. | currency only. | | c. |

currency plus all bank accounts. | | d. | currency plus all bank accounts plus bonds. | ANS: A DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP:

Money MSC: Interpretive 11. The measure of the money stock called M1

includes | a. | wealth held by people in their checking accounts. | | b. | wealth held by people in their savings accounts. | | c. | wealth held by people in

money market mutual funds. | | d. | everything that is included in M2 plus some additional items. | ANS: A DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money supply MSC: Definitional 12. Credit cards are | a. | a medium of exchange. | | b. | counted as part of M2 but not as part of M1. | | c. | important for analyzing the monetary system. | | d. | All of the above are correct. | ANS: C DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Interpretive 13. The set of items that serve as media of exchange clearly includes | a. | demand deposits. | | b. | short-term bonds. | | c. | credit cards. | | d. | All of the above are correct. | ANS: A DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money | Medium of exchange MSC: Interpretive 14. The set of items that serve as media of exchange clearly includes | a. | balances that lie behind debit cards. | | b. | demand deposits. | | c. | deposits other than demand deposits, such as NOW accounts, on which checks can be written. | | d. | All of the above are correct. | ANS: D DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money | Medium of exchange MSC: Interpretive 15. Dollar bills, rare paintings, and emerald necklaces are all | a. | media of exchange. | | b. | units of account. | | c. | stores of value. | | d. | All of the above are correct. | ANS: C DIF: 2 REF: 29-1 NAT: Analytic LOC: The study of economics, and the definitions of economics TOP: Store of value MSC: Interpretive 16. Imagine an economy in which: (1) pieces of paper called yollars are the only thing that buyers give to sellers when they buy goods and services, so it would be common to use, say, 50 yollars to buy a pair of shoes; (2) prices are posted in terms of yardsticks, so you might walk into a grocery store and see that, today, an apple is worth 2 yardsticks; and (3) yardsticks disintegrate overnight, so no

yardstick has any value for more than 24 hours. In this economy, | a. | the yardstick is a medium of exchange but it cannot serve as a unit of account. | | b. | the yardstick is a unit of account but it cannot serve as a store of value. | | c. | the yardstick is a medium of exchange but it cannot serve as a store of value, and the yollar is a unit of account. | | d. | the yollar is a unit of account, but it is not a medium of exchange and it is not a liquid asset. |

ANS: B DIF: 2 REF: 29-1 NAT: Analytic LOC: The study of economics, and the definitions of economics TOP: Medium of exchange | Store of value MSC:

Applicative 17. Money is | a. | the most liquid asset and a perfect store of value. | | b. | the most liquid asset but an imperfect store of value. | | c. | the least liquid asset but a perfect store of value. | | d. | the least liquid asset and an imperfect store of value. | ANS: B DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money | Liquidity | Store of value MSC: Interpretive 18.

Paper dollars | a. | are commodity money and gold coins are fiat money. | | b. | are fiat money and gold coins are commodity money. | | c. | and gold coins are both commodity monies. | | d. | and gold coins are both fiat monies. |

ANS: B DIF: 2 REF: 29-1 NAT: Analytic LOC: The study of economics, and the definitions of economics TOP: Currency | Commodity money MSC:

Interpretive 19. The Soviet government in the 1980s never abandoned the ruble as the official currency. The people of Moscow preferred to accept other items such as | a. | cigarettes in exchange for goods and services, because they were convinced that cigarettes were going to soon become | | | hard to come by. | | b. | American dollars in exchange for goods and services, because rubles were extremely hard to come by. | | c. | cigarettes or American dollars in exchange for goods and services, reminding us of the

fact that government decree by itself is not sufficient for the success of a commodity money. | | d. | All of the above are correct. | ANS: C DIF: 3 REF:

29-1 NAT: Analytic LOC: The study of economics, and the definitions of economics TOP: Medium of exchange MSC: Applicative 20. Currency includes | a. | paper bills and coins. | | b. | demand deposits. | | c. | credit cards. | | d. |

Both (a) and (b) are correct. | ANS: A DIF: 2 REF: 29-1 NAT: Analytic LOC: The study of economics, and the definitions of economics TOP: Currency MSC:

Interpretive 21. Which of the following is not included in M1? | a. | a \$5 bill in your wallet | | b. | \$100 in your checking account | | c. | \$500 in your savings account | | d. | All of the above are included in M1. | ANS: C DIF: 2 REF: 29-1

NAT: Analytic LOC: The study of economics, and the definitions of economics TOP: Money supply MSC: Interpretive 22. Money | a. | is more efficient than

barter. | | b. | makes trades easier. | | c. | allows greater specialization. | | d. | All of the above are correct. | ANS: D DIF: 1 REF: 29-1 NAT: Analytic LOC: The

role of money TOP: Money MSC: Definitional 23. Paper money | a. | has a high intrinsic value. | | b. | is the primary medium of exchange in a barter economy. | | c. | is valuable because it is generally accepted in trade. | | d. | is valuable only because of the legal tender requirement. | ANS: C DIF: 1 REF:

29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Definitional 24.

Which of the following is a store of value? | a. | currency | | b. | U. S.

government bonds | | c. | fine art | | d. | All of the above are correct. | ANS: D DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Store of value

MSC: Interpretive 25. Which of the following best illustrates the unit of account function of money? | a. | You list prices for candy sold on your Web site, [www. sweettooth. com](http://www.sweettooth.com), in dollars. | | b. | You pay for your theater tickets

with dollars. | | c. | You keep 6 ounces of gold in your safe-deposit box at the bank for emergencies. | | d. | None of the above is correct. | ANS: A DIF: 1

REF: 29-1 NAT: Analytic LOC: The role of money TOP: Unit of account MSC:

Interpretive 26. Which of the following best illustrates the concept of a store

of value? | a. | You are a precious-metals dealer, and you are always aware

of how many ounces of platinum trade for an ounce of gold. | | b. | You sell

items on eBay, and your prices are stated in terms of dollars. | | c. | You keep

6 ounces of gold in your safe-deposit box at the bank for emergencies. | | d. |

None of the above is correct. | ANS: C DIF: 1 REF: 29-1 NAT: Analytic LOC:

The role of money TOP: Store of value MSC: Interpretive 27. The “yardstick”

people use to post prices and record debts is called | a. | a medium of

exchange. | | b. | a unit of account. | | c. | a store of value. | | d. | liquidity. |

ANS: B DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Unit of

account MSC: Definitional 28. Mia puts money into a piggy bank so she can

spend it later. What function of money does this illustrate? | a. | store of

value | | b. | medium of exchange | | c. | unit of account | | d. | None of the

above is correct. | ANS: A DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of

money TOP: Store of value MSC: Interpretive 29. Which of the following best

illustrates the medium of exchange function of money? | a. | You keep some

money hidden in your shoe. | | b. | You keep track of the value of your assets

in terms of currency. | | c. | You pay for your oil change using currency. | | d. |

None of the above is correct. | ANS: C DIF: 1 REF: 29-1 NAT: Analytic LOC:

The role of money TOP: Medium of exchange MSC: Interpretive 30. You

receive money as payment for babysitting your neighbors' children. This best

illustrates which function of money? | a. | medium of exchange | | b. | unit of

account | | c. | store of value | | d. | liquidity | ANS: A DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Medium of exchange MSC: Definitional

31. Which of the following is a function of money? | a. | a unit of account | | b. | a store of value | | c. | medium of exchange | | d. | All of the above are correct. | ANS: D DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Definitional

32. An item that people can use to transfer purchasing power from the present to the future is called | a. | a medium of exchange. | | b. | a unit of account. | | c. | a store of value. | | d. | None of the above is correct. | ANS: C DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Store of value MSC: Definitional

33. Treasury Bonds are | a. | liquid, but not a store of value. | | b. | a store of value, but not liquid. | | c. | both liquid and a store of value. | | d. | neither liquid nor a store of value. | ANS: C DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Liquidity | Store of value MSC: Interpretive

34. Which of the following functions of money is also a common function of most other financial assets? | a. | a unit of account | | b. | a store of value | | c. | medium of exchange | | d. | None of the above is correct. | ANS: B DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Store of value MSC: Definitional

35. Economists use the word "money" to refer to | a. | income generated by the production of goods and services. | | b. | those assets regularly used to buy goods and services. | | c. | the value of a person's assets. | | d. | the value of stocks and bonds. | ANS: B DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money MSC: Definitional

36. Liquidity refers to | a. | the ease with which an asset is converted to the medium of exchange. | | b. | a measurement of the intrinsic value of commodity money. | | c. | the suitability of an asset to serve as a

store of value. | | d. | how many time a dollar circulates in a given year. |

ANS: A DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Liquidity

MSC: Definitional 37. Currently, U. S. currency is | a. | fiat money with intrinsic value. | | b. | fiat money with no intrinsic value. | | c. | commodity money with intrinsic value. | | d. | commodity money with no intrinsic value. |

ANS: B DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP:

Commodity money | Money MSC: Definitional 38. Fiat money | a. | has no intrinsic value. | | b. | is backed by gold. | | c. | has intrinsic value equal to its value in exchange. | | d. | is any close substitute for currency such as

checkable deposits. | ANS: A DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Intrinsic value MSC: Definitional 39. Commodity money is | a. |

backed by gold. | | b. | the principal type of money in use today. | | c. | money with intrinsic value. | | d. | receipts created in international trade that are used as a medium of exchange. | ANS: C DIF: 1 REF: 29-1 NAT: Analytic

LOC: The role of money TOP: Commodity money MSC: Definitional 40. Fiat money | a. | is worthless. | | b. | has no intrinsic value. | | c. | may be used as a medium of exchange, but it is not legal tender. | | d. | performs all the functions of money except the unit-of-account function. | ANS: B DIF: 1 REF:

29-1 NAT: Analytic LOC: The role of money TOP: Intrinsic value MSC:

Definitional 41. Which type of money has intrinsic value? | a. | commodity money | | b. | fiat money | | c. | both commodity money and fiat money | | d. | neither commodity money nor fiat money | ANS: A DIF: 1 REF: 29-1 NAT:

Analytic LOC: The role of money TOP: Commodity money MSC: Definitional

42. If an economy used gold as money, its money would be | a. | commodity money, but not fiat money. | | b. | fiat money, but not commodity money. | |

c. | both fiat and commodity money. | | d. | functioning as a store of value and as a unit of account, but not as a medium of exchange. | ANS: A DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Commodity money MSC: Definitional 43. The legal tender requirement means that | a. | people are more likely to accept the dollar as a medium of exchange. | | b. | the government must hold enough gold to redeem all currency. | | c. | people may not make trades with anything else. | | d. | All of the above are correct. | ANS: A DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Medium of exchange MSC: Definitional 44. Writing in The New York Times in 2004, economist Hal R. Varian asserted that dollars are valuable as a result of | a. | the fact that they are backed by gold. | | b. | the cost incurred by the government when it prints paper currency. | | c. | " network effects. " | | d. | " commodity effects. " | ANS: C DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money | Value MSC: Definitional 45. Writing in The New York Times in 2004, economist Hal R. Varian likens the network effects associated with dollars to the network effects associated with | a. | fax machines. | | b. | carbonated beverages. | | c. | televisions and radios. | | d. | jewelry and works of art. | ANS: A DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money | Value MSC: Definitional 46. In the early 1990s, the inflation rate in southern Iraq averaged about | a. | 3 percent a year, with the U. S. dollar serving as the official currency in southern Iraq at that time. | | b. | 20 percent a year, with a new currency, the " Saddam dinar, " serving as the official currency in southern Iraq at that | | | time. | | c. | 250 percent a year, with a new currency, the " Saddam dinar, " serving as the official currency in southern Iraq at that | | | time. | | d. | 250 percent a year, with an established

currency, the " Swiss dinar, " serving as the official currency in southern Iraq
| | | at that time. | ANS: C DIF: 2 REF: 29-1 NAT: Analytic LOC: The role of
money TOP: Money | Inflation rate MSC: Interpretive 47. M1 equals currency
plus demand deposits plus | a. | nothing else. | | b. | other checkable
deposits. | | c. | traveler's checks plus other checkable deposits. | | d. |
traveler's checks plus other checkable deposits plus savings deposits. | ANS:
C DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money supply
MSC: Definitional 48. M1 includes | a. | currency. | | b. | demand deposits. | |
c. | travelers' checks. | | d. | All of the above are correct. | ANS: D DIF: 1 REF:
29-1 NAT: Analytic LOC: The role of money TOP: Money supply MSC:
Definitional 49. Which of the following is not included in M1? | a. | currency | |
b. | demand deposits | | c. | savings deposits | | d. | travelers' checks | ANS: C
DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money supply
MSC: Definitional 50. Which of the following is not included in M1? | a. |
currency | | b. | demand deposits | | c. | traveler's checks | | d. | credit cards |
ANS: D DIF: 1 REF: 29-1 NAT: Analytic LOC: The role of money TOP: Money
supply MSC: Definitional 51. Which of the following is included in M2 but not
in M1? | a. | currency | | b. | demand deposits | | c. | savings deposits | | d. |
All of the above are included in both M1 and M2. | ANS: C DIF: 1 REF: 29-1