

NAME _____

- 1) Mary wants to trade piano lessons for ice-skating lessons. Sarah wants to trade ice-skating lessons for piano lesson. Mary and Sarah have:
 - a) double coincidence of wants.
 - b) A double incidence of demand.
 - c) The basis for a double fiat exchange.
 - d) The basis for a liquidity exchange.
- 2) The development of money as a medium of exchange has facilitated the expansion of trade because:
 - a) holding money increases people's wealth.
 - b) Holding money increases people's income.
 - c) No other mediums of exchange are available.
 - d) Money eliminates the double coincidence of wants problem.
- 3) A medium of exchange is:
 - a) what sellers generally accept and buyers generally use to pay for goods and services.
 - b) An asset that can be used to transport purchasing power from one period of time to another.
 - c) A standard unit that provides a consistent way of quoting prices
 - d) A lamb chop used to purchase a crate of romaine lettuce.
- 4) Ashley received a federal income tax refund of \$500 in May 1998. Ashley put this money in a shoebox in her closet so that she could spend it when she goes on vacation in June 1999. This is an example of money serving as:
 - a) a unit of account
 - b) a store of value
 - c) a medium of exchange
 - d) an investment good
- 5) Dena won \$10,000 at a bingo game. She deposited her winnings into a money market fund so that she can use the money next year to pay her tuition. This is an example of money serving as:
 - a) a unit of account
 - b) a store of value
 - c) a medium of exchange
 - d) an investment good
- 5) The Seafood Source quotes the price of a lobster at \$20 a pound. This is an example of money serving as:
 - a) a unit of account
 - b) a store of value
 - c) a medium of exchange
 - d) an investment good
- 6) Currency held outside the bank is measured in:
 - a) M1 only
 - b) M2 only
 - c) Both M1 and M2
 - d) Neither M1 nor M2
- 7) Which of the following is included in M2, but not included in M1?
 - a) currency held outside banks
 - b) savings accounts
 - c) automatic-transfer savings accounts
 - d) travelers checks
- 8) Dana transfers \$5,000 from her checking account to her savings account. This transaction will
 - a) decrease both M1 and M2
 - b) decrease M1 and not change M2
 - c) not change M1 and decrease M2
 - d) increase both M1 and M2
- 9) Matthew transfers \$2,000 from his money market fund to his checking account. This transaction will:
 - a) decrease M2, and increase M1
 - b) decrease M1 and increase M2
 - c) increase M1, but leave M2 unchanged
 - d) decrease both M1 and M2
- 10) Checking account balances are included:
 - a) M1 only
 - b) M2 only
 - c) Neither M1 and M2
 - d) Both M1 and M2
- 11) Third National Bank has \$600 million in deposits. The required reserve ratio is 10%. Third National Bank must keep _____ in reserves.
 - a) \$6 million
 - b) \$60 million
 - c) \$100 million
 - d) \$160 million

NAME _____

- 12) Banks can create money
- only by illegally printing additional dollar bills
 - by paying interest to their depositors
 - by making loans that result in additional deposits
 - by offering financial services, such as money market accounts
- 13) The multiple by which total deposits can increase for every dollar increase in reserves is the
- required reserve ratio
 - bank's line of credit
 - deposit insurance limit
 - money multiplier
- 14) The required reserve ratio is 10%. The money multiplier is:
- .1
 - 1
 - 9
 - 10
- 15) The banking system has deposits of \$100 million and no excess reserves. The required reserve ratio is reduced from 25% to 20%. If there are no leakages from the banking system, the banking system:
- could make additional loans up to \$5 Million
 - could make additional loans up to \$2 Million
 - could make additional loans up to \$25 Million
 - could not make any additional loans because it has not received any new deposits
- 16) Which Fed district office is responsible for carrying out open market operations:
- Washington D.C.
 - San Francisco
 - New York
 - Saint Louis
- 17) The shape of the Laffer curve implies:
- as national income rises, tax revenue rises
 - as national income rises, tax revenue falls
 - as national income rises, tax revenues do not change
 - as national income rises, tax revenues may rise, fall or stay the same
- 18) Government debt is harmful in the United States today for all of the following reasons EXCEPT:
- it crowds out private investment
 - it increases the interest rate the government must pay to foreign nations
 - it may lead to inflation
 - the government will not be able to meet its operating costs
- Longer type Questions:
- 19) List several reasons why it might be good for a government to run a budget deficit. Explain for each of these reasons why it is good.
- 20) Is a credit card money, why or why not?
- 21) Why are large government deficits more serious for countries with:
- limited ability to borrow?
 - Low savings rates?
- 22) List Three ways the Fed can increase the money supply.
- 23) The required reserve ratio is .2. The fed wants to increase the Money Supply \$100 million through OMO, what needs to be done to meet this goal.
- 24) The required reserve ratio is .25. The Fed sells \$100 million in US bonds in the open market, what happens to the money supply.
- 25) If there are 100 young people, 50 old people, the social security tax is .25 and the average income of the young is \$1,000 a week. What are the average annual benefits paid to Social Security recipients, given that we are in a true pay as you go system.