PART I: Definitions

Commodity money

Fiat money

Liquidity

M1

M2

Reserve Requirement Ratio

Money Multiplier

Aggregate Demand

Aggregate Supply

Full Employment Output level

PART II: Short Answer Questions

1. List the three functions of money.

2. Which of the three functions of money are commonly met by each of the following assets in the U.S. economy?
   
   i) paper dollar
   ii) precious metals
   iii) collectibles such as baseball cards, stamps, and antiques

3. Are credit cards and debit cards money? What's the difference between credit and debit cards?

4. What is the difference between commodity money and fiat money? Why do people accept fiat money in trade for goods and services?

5. We talked about Fed being the "lender of last resort?" In what circumstances might the Fed be a lender of last resort?

6. Explain why banks can influence the money supply if the required reserve ratio is less than 100 percent.

7. 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

8. 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.
PART III: Multiple Choice Questions

1. 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.

2. 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.

3. 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

4. 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.

5. 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.

6. M1 includes
   a. currency.
   b. demand deposits.
   c. travelers' checks.
   d. All of the above are correct.

7. Which of the following is included in M2 but not in M1?
   a. demand deposits
   b. corporate bonds
   c. large time deposits
   d. money market mutual funds

8. Which of the following is not included in either M1 or M2?
   a. U.S. Treasury bills
   b. small time deposits
   c. demand deposits
   d. money market mutual funds
Table 1: The information in the table pertains to an imaginary economy.

<table>
<thead>
<tr>
<th>Type of Money</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large time deposits</td>
<td>$80 billion</td>
</tr>
<tr>
<td>Small time deposits</td>
<td>$75 billion</td>
</tr>
<tr>
<td>Demand deposits</td>
<td>$75 billion</td>
</tr>
<tr>
<td>Other checkable deposits</td>
<td>$40 billion</td>
</tr>
<tr>
<td>Savings deposits</td>
<td>$10 billion</td>
</tr>
<tr>
<td>Travelers' checks</td>
<td>$1 billion</td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>$15 billion</td>
</tr>
<tr>
<td>Currency</td>
<td>$110 billion</td>
</tr>
<tr>
<td>Credit card balances</td>
<td>$10 billion</td>
</tr>
<tr>
<td>Miscellaneous categories of M2</td>
<td>$25 billion</td>
</tr>
</tbody>
</table>

9. **Refer to Table 1:** What is the M1 money supply?
   a. $215 billion
   b. $216 billion
   c. $226 billion
   d. $301 billion

10. **Refer to Table 1:** What is the M2 money supply?
    a. $125 billion
    b. $296 billion
    c. $351 billion
    d. $431 billion

11. The agency responsible for regulating the money supply in the United States is
    a. the Comptroller of the Currency.
    b. the U.S. Treasury.
    c. the Federal Reserve.
    d. the U.S. Bank.

12. The Federal Reserve does all except which of the following?
    a. It controls the supply of money.
    b. It acts as a lender of last resort to banks.
    c. It makes loans to large business firms.
    d. It tries to ensure the health of the banking system.

13. In a system of 100-percent-reserve banking,
    a. banks do not make loans.
    b. currency is the only form of money.
    c. deposits are banks’ only assets.
    d. All of the above are correct.

14. If a bank has a reserve ratio of 8 percent, then
Table 2: An economy starts with $10,000 in currency. All of this currency is deposited into a single bank, and the bank then makes loans totaling $9,250. The T-account of the bank is shown below.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>$750</td>
</tr>
<tr>
<td>Loans</td>
<td>$9,250</td>
</tr>
<tr>
<td>Deposits</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

15. **Refer to Table 2.** This bank operates in
   a. system of 0-percent-reserve banking.
   b. system of 100-percent-reserve banking.
   c. system of Federal-Reserve banking.
   d. fractional-reserve banking system.

16. **Refer to Table 2.** The bank’s reserve ratio is
   a. 7.50 percent.
   b. 8.12 percent.
   c. 92.50 percent.
   d. 100 percent.

17. **Refer to Table 2.** If all banks in the economy have the same reserve ratio as this bank, then the value of the economy’s money multiplier is
   a. 1.33.
   b. 10.00.
   c. 10.81.
   d. 13.33.

18. **Refer to Table 2.** If all banks in the economy have the same reserve ratio as this bank, then an increase in deposits of $150 for this bank has the potential to increase deposits for all banks by
   a. $866.67.
   b. $1,666.67.
   c. $2,000.00.
   d. an infinite amount.

19. Which tool of monetary policy does the Federal Reserve use most often?
   a. adjustments to long-term interest rates
   b. open-market operations
   c. changes in reserve requirements
   d. changes in the discount rate

20. When the Fed purchases $200 worth of government bonds from the public, the U.S. money supply eventually increases by
   a. more than $200.
   b. exactly $200.
   c. less than $200.
   d. All of the above are possible.

21. The discount rate is the interest rate that
   a. banks charge one another for loans.
   b. banks charge the Fed for loans.
   c. the Fed charges banks for loans.
   d. the Fed charges Congress for loans.
22. The federal funds rate is the interest rate that
   a. banks charge one another for loans.
   b. banks charge the Fed for loans.
   c. the Fed charges banks for loans.
   d. the Fed charges Congress for loans.

23. As the reserve ratio increases, the money multiplier
   a. increases.
   b. does not change.
   c. decreases.
   d. could do any of the above.

24. If the reserve ratio is 4 percent, then the money multiplier is
   a. 25.
   b. 20.
   c. 4.
   d. 2.

25. If the reserve ratio is 100 percent, then a new deposit of $500 into a bank account
   a. eventually increases the money supply by $500.
   b. leaves the size of the money supply unchanged.
   c. eventually decreases the size of the money supply by $500.
   d. None of the above is correct.

26. To increase the money supply, the Fed could
   a. sell government bonds.
   b. decrease the discount rate.
   c. increase the reserve requirement.
   d. None of the above is correct.

27. Which of the following lists two things that both decrease the money supply?
   a. lower the discount rate, raise the reserve requirement ratio
   b. lower the discount rate, lower the reserve requirement ratio
   c. raise the discount rate, raise the reserve requirement ratio
   d. raise the discount rate, lower the reserve requirement ratio

28. Which of the following is correct concerning recessions?
   a. They come at fairly regular and predictable intervals.
   b. They are associated with comparatively large declines in investment spending.
   c. They are any period when real GDP growth is less than average.
   d. They tend to be associated with falling unemployment rates.

29. During the last half of 1980, the U.S. unemployment rate was about 7.5 percent. Historical experience suggests that this is
   a. above the natural rate, so real GDP growth was likely low.
   b. above the natural rate, so real GDP growth was likely high.
   c. below the natural rate, so real GDP growth was likely low.
   d. below the natural rate, so real GDP growth was likely high.

30. Which of the following is not a determinant of the long-run level of real GDP?
   a. the price level
   b. the supply of labor
   c. available natural resources
   d. available technology
31. Other things the same, a decrease in the price level makes consumers feel
   a. less wealthy, so the quantity of goods and services demanded falls.
   b. less wealthy, so the quantity of goods and services demanded rises.
   c. more wealthy, so the quantity of goods and services demanded rises.
   d. more wealthy, so the quantity of goods and services demanded falls.

32. The sticky-wage theory of the short-run aggregate supply curve says that the quantity of output firms
   supply will increase if
   a. the price level is higher than expected making production more profitable.
   b. the price level is higher than expected making production less profitable.
   c. the price level is lower than expected making production more profitable.
   d. the price level is higher than expected making production less profitable.