

Name: _____

Roll Number: _____

- a. Each Question is worth 1.5 points
- b. Please circle the right answer. Each question has **ONLY ONE** right answer.
- c. **Correct Answers in bold.**

Answer the following questions:

1. Adverse Selection problem occurs:
 - a. **Before the transaction.**
 - b. After the transaction.
 - c. Because of illegal transactions.
 - d. None of the above.
2. Consider a barter system where each of you has a large amount of one different good. There are 250 students in this class. The total prices that will then exist are:
 - a. 250.
 - b. **31125.**
 - c. 62250.
 - d. None of the above.
3. Which of these characteristics of a financial institution is most likely to lead to conflict of interest?
 - a. Economies of scale.
 - b. Adverse selection.
 - c. **Economies of scope.**
 - d. None of the above.
4. When the real interest rate is low, there are greater incentives to borrow and lend.
 - a. True.
 - b. False
 - c. **True for borrowing**
 - d. True for lending.
5. Financial markets help us reduce which of the following in a big way?
 - a. Corruption.
 - b. Misallocation of funds.
 - c. Confirmation bias.
 - d. **Transaction Costs.**
 - e. None of the above.
6. Which of these is the most accurate (and discussed in class)? Financial institutions help people
 - a. Make money.
 - b. **Smoothen consumption.**
 - c. Earn good credit scores.

- d. Acquire debt at will.
- 7. Which of these is a major function of money?
 - a. Wealth management
 - b. Unit of exchange
 - c. Store of value**
 - d. Both a. & c.
 - e. Both a. & b.
 - f. Both b. & c.
- 8. If we think of Bitcoin as money, mining increases
 - a. Demand.
 - b. Supply.**
 - c. Value.
 - d. Transaction Costs.
- 9. Gold is?
 - a. Commodity money**
 - b. Fiat Money
 - c. It cannot be money.
 - d. None of the above.**

For 9, answer is a. but accepting d. as well.

- 10. Currency notes are:
 - a. Wealth
 - b. Money (M1)
 - c. Money (M2)
 - d. All of the above.**
 - e. Only b. and c.