Assessments Chapter 2

1. What is money, according to the text?

A) A physical object with intrinsic value

B) A way to exchange goods and services

C) A tool for measuring value and comparing prices

D) A guarantee of future satisfaction

Answer: B) A way to exchange goods and services

Rationale: The text defines money as a means to facilitate trade and commerce, allowing people to buy and sell goods and services.

2. Which function of money does the example of buying a sandwich at a deli illustrate?

A) Store of value

B) Medium of exchange

C) Unit of account

D) Scarcity

Answer: B) Medium of exchange

Rationale: Buying a sandwich involves using money as a medium to exchange for goods, which aligns with the function of facilitating trade.

3. What are the properties of money mentioned in the text?

A) Durability, divisibility, portability, acceptability, scarcity, and fungibility

B) Stability, liquidity, value, acceptability, and scarcity

C) Intrinsic value, rarity, durability, and portability

D) Exchangeability, stability, acceptability, and scarcity

Answer: A) Durability, divisibility, portability, acceptability, scarcity, and fungibility

Rationale: The text lists these six properties as essential for money to function effectively.

4. Which type of money is represented by paper bills and coins issued by governments?

A) Fiat money

B) Representative money

C) Commodity money

D) Digital currency

Answer: A) Fiat money

Rationale: The text explains that fiat money is a form of currency decreed by the government to be an acceptable medium of exchange.

5. What is the difference between centralized scarcity and decentralized scarcity?

A) Centralized scarcity involves natural resources, while decentralized scarcity involves human-made goods.

B) Centralized scarcity refers to controlled access to essential resources, while decentralized scarcity refers to uncontrolled access.

C) Centralized scarcity is managed by a single entity, while decentralized scarcity has no controlling authority.

D) Centralized scarcity affects the wealthy, while decentralized scarcity affects the poor.

Answer: C) Centralized scarcity is managed by a single entity, while decentralized scarcity has no controlling authority.

Rationale: The text explains that centralized scarcity involves control by a single entity, while decentralized scarcity does not have a central controller.

6. What is time preference?

A) The tendency to prioritize long-term goals over short-term gratification

B) The inclination to delay gratification in favor of future rewards

C) The willingness to sacrifice present enjoyment for future benefits

D) The ability to weigh immediate costs against long-term gains

Answer: B) The inclination to delay gratification in favor of future rewards

Rationale: Time preference refers to the tendency to prefer receiving rewards sooner rather than later.

7. What is opportunity cost?

A) The value of the next best alternative that you give up when making a decision

B) The difference between your expected outcome and the actual outcome

C) The cost of not choosing an option

D) The benefit of choosing one option over another

Answer: A) The value of the next best alternative that you give up when making a decision

Rationale: Opportunity cost refers to the potential benefits or rewards that are lost when choosing one option over another.

8. Which type of money is represented by gold and silver?

A) Fiat money

B) Representative money

C) Commodity money

D) Digital currency

Answer: C) Commodity money

Rationale: The text explains that commodity money is a physical object with intrinsic value, such as gold or silver.

9. What is the unit of account function of money?

A) Facilitating trade and commerce

B) Measuring the value of goods and services

C) Providing a standard for comparing prices

D) Serving as a medium of exchange

Answer: C) Providing a standard for comparing prices

Rationale: The text states that money serves as a unit of account, allowing people to express the value of goods and services in a common language.

10. Which type of digital currency is designed to maintain a stable value relative to an asset?

A) Cryptocurrency

B) Stablecoin

C) Digital wallet

D) Electronic currency

Answer: B) Stablecoin

Rationale: The text explains that stablecoins are designed to maintain a stable value, such as being pegged to the U.S. dollar.

11. What is an example of centralized scarcity?

A) Limited edition designer bags

B) Salt in the ocean

C) Clean water controlled by private companies or governments

D) Precious metals like gold

Answer: C) Clean water controlled by private companies or governments

Rationale: The text provides the example of clean water being managed by a single entity, leading to unequal access and price increases.

12. What is the difference between fiat money and representative money?

A) Fiat money is physical, while representative money is digital.

B) Fiat money is controlled by governments, while representative money is controlled by private entities.

C) Fiat money represents a claim on a physical commodity, while representative money is a physical object with intrinsic value.

D) Fiat money is backed by gold or other precious metals, while representative money is not.

Answer: C) Fiat money represents a claim on a physical commodity, while representative money is a physical object with intrinsic value.

Rationale: The text explains that fiat money is a form of currency decreed by the government to be an acceptable medium of exchange, while representative money represents a claim on a physical commodity.

13. What is the relationship between scarcity and opportunity cost?

A) Scarcity refers to the limited availability of resources, while opportunity cost refers to the benefits or rewards that are lost when making a decision.

B) Scarcity and opportunity cost are unrelated concepts.

C) Opportunity cost is a consequence of scarcity.

D) Scarcity is an outcome of opportunity cost.

Answer: A) Scarcity refers to the limited availability of resources, while opportunity cost refers to the benefits or rewards that are lost when making a decision.

Rationale: The text explains that scarcity forces us to make choices and weigh the pros and cons, leading to trade-offs and opportunity costs.

14. What is an example of decentralized scarcity?

A) Limited edition designer bags

B) Salt in the ocean

C) Precious metals like gold

D) Clean water controlled by private companies or governments

Answer: B) Salt in the ocean

Rationale: The text provides the example of salt being a naturally occurring resource that is not controlled by any single entity, making it an example of decentralized scarcity.

15. Which type of digital currency operates without intermediaries?

A) Cryptocurrency

B) Stablecoin

C) Digital wallet

D) Electronic currency

Answer: A) Cryptocurrency

Rationale: The text explains that cryptocurrencies can operate without intermediaries, allowing for secure transactions without relying on trust between parties.