Assessments Chapter 3

1. What type of money did people use before coins were minted?

a) Fiat currency

b) Commodity money (gold, silver)

c) Paper money

d) Bartering

Answer: d) Bartering

Rationale: Before coins were minted, people used bartering to trade goods and services.

2. Which dynasty in China first used paper money as a form of currency?

a) Ming dynasty

b) Song dynasty

c) Qing dynasty

d) Tang dynasty

Answer: b) Song dynasty

Rationale: The Song dynasty (960-1279 CE) was the first to use paper money as a form of currency.

3. What was established in 1944 at Bretton Woods?

a) Fiat currency

b) Gold standard

c) Digital currencies

d) Central banks

Answer: b) Gold standard

Rationale: The gold standard was established in 1944 at the Bretton Woods conference, where the US dollar was pegged to gold at $35 per ounce.

4. What is fiat currency?

a) Currency backed by a physical commodity like gold or silver

b) Currency regulated by central banks and governments

c) Currency that can be exchanged for goods and services

d) Currency used only in digital form

Answer: b) Currency regulated by central banks and governments

Rationale: Fiat currency is not backed by a physical commodity but is regulated by central banks and governments.

5. What was the first decentralized digital currency created?

a) Ethereum

b) Bitcoin

c) Litecoin

d) Dogecoin

Answer: b) Bitcoin

Rationale: Bitcoin was created in 2009 as the first decentralized digital currency.

6. How do people store and exchange digital currencies?

a) In physical wallets

b) Using computers and special software

c) At central banks

d) Through bartering

Answer: b) Using computers and special software

Rationale: Digital currencies are stored and exchanged using computers and special software.

7. What problem does bartering have in terms of trading goods and services?

a) Lack of a medium of exchange

b) Double coincidence of wants problem

c) Inflation

d) Deflation

Answer: b) Double coincidence of wants problem

Rationale: Bartering has the double coincidence of wants problem, where people must find someone who has what they want but also wants what they have to offer.

8. What is the main difference between commodity money and fiat currency?

a) Commodity money is backed by a physical commodity like gold or silver.

b) Fiat currency is always used in digital form.

c) Fiat currency is regulated by central banks and governments.

d) Commodity money can be exchanged for goods and services.

Answer: a) Commodity money is backed by a physical commodity like gold or silver.

Rationale: The main difference between commodity money and fiat currency is that commodity money is backed by a physical commodity like gold or silver, while fiat currency is not.

9. What was the value of one US dollar in relation to gold at Bretton Woods?

a) $20 per ounce

b) $35 per ounce

c) $50 per ounce

d) $100 per ounce

Answer: b) $35 per ounce

Rationale: At Bretton Woods, the US dollar was pegged to gold at a value of $35 per ounce.

10. Why did the gold standard eventually break down?

a) Due to inflation

b) Due to deflation

c) Due to the 1929 economic crisis and two world wars

d) Due to the rise of digital currencies

Answer: c) Due to the 1929 economic crisis and two world wars

Rationale: The gold standard eventually broke down due to the 1929 economic crisis and two world wars.

11. What is a fiat currency's value based on?

a) A physical commodity like gold or silver

b) Central banks and governments' regulation

c) Demand in international trade

d) Interest rates

Answer: b) Central banks and governments' regulation

Rationale: Fiat currencies are not backed by a physical commodity but are regulated by central banks and governments.

12. What is the main advantage of digital currencies compared to traditional fiat currency?

a) They can be exchanged for goods and services

b) They exist solely in electronic form

c) They allow instant transactions with very little cost

d) They can only be used online

Answer: c) They allow instant transactions with very little cost

Rationale: Digital currencies enable instant transactions with very little cost, making them more efficient than traditional fiat currency.

13. What is the main disadvantage of fiat currency compared to commodity money?

a) It is not backed by a physical commodity like gold or silver

b) It can be exchanged for goods and services

c) It allows instant transactions with very little cost

d) It is regulated by central banks and governments

Answer: a) It is not backed by a physical commodity like gold or silver

Rationale: The main disadvantage of fiat currency compared to commodity money is that it is not backed by a physical commodity like gold or silver.

14. What problem does the current fiat monetary system have?

a) Inflation

b) Deflation

c) Lack of stability and reliability

d) Lack of centralization

Answer: c) Lack of stability and reliability

Rationale: The current fiat monetary system has issues with lack of stability and reliability, as the value of money is subject to fluctuation due to various factors.

15. What is the main difference between commodity money and digital currency?

a) Commodity money is backed by a physical commodity like gold or silver.

b) Digital currencies exist solely in electronic form

c) Commodity money can be exchanged for goods and services

d) Digital currencies are regulated by central banks and governments

Answer: b) Digital currencies exist solely in electronic form

Rationale: The main difference between commodity money and digital currency is that digital currencies exist solely in electronic form, while commodity money takes physical forms like gold or silver.