

Chapter 3 - Practice

1. Currency includes
 - A. paper money and coins.
 - B. paper money, coins, and checks.
 - C. paper money and checks.
 - D. paper money, coins, checks, and savings deposits.
2. If peanuts serve as a medium of exchange, a unit of account, and a store of value, then peanuts are
 - A. bank deposits.
 - B. reserves.
 - C. money.
 - D. loanable funds.
3. Compared to an economy that uses a medium of exchange, in a barter economy
 - A. transaction costs are higher.
 - B. transaction costs are lower.
 - C. liquidity costs are higher.
 - D. liquidity costs are lower.
4. Which of the following statements best explains how the use of money in an economy increases economic efficiency?
 - A. Money increases economic efficiency because it is costless to produce.
 - B. Money increases economic efficiency because it discourages specialization.
 - C. Money increases economic efficiency because it decreases transactions costs.
 - D. Money cannot have an effect on economic efficiency.
5. Kevin purchasing concert tickets with a \$100 bill is an example of the _____ function of money.
 - A. medium of exchange
 - B. unit of account
 - C. store of value
 - D. specialization
6. Dennis notices that jackets are on sale for \$99. In this case money is functioning as a
 - A. unit of account

- B. medium of exchange
 - C. store of value
 - D. payments-system ruler.
7. A fall in the level of prices
- A. does not affect the value of money
 - B. has an uncertain effect on the value of money.
 - C. increases the value of money.
 - D. reduces the value of money.
8. When paper currency is decreed by governments as legal tender, legally it must be
- A. paper currency backed by gold
 - B. precious metal such as gold or silver.
 - C. accepted as payment for debts.
 - D. convertible into an electronic payment.
9. The evolution of the payments system from barter to precious metals, then to fiat money, then to checks can best be understood as a consequence of
- A. government regulations designed to improve the efficiency of the payments system.
 - B. government regulations designed to promote the safety of the payments system.
 - C. innovations that reduced the costs of exchanging goods and services.
 - D. competition among firms to make it easier for customers to purchase their products.
10. Which of the following sequences accurately describes the evolution of the payments system?
- A. barter, coins made of precious metals, paper currency, checks, electronic funds transfers
 - B. barter, coins made of precious metals, checks, paper currency, electronic funds transfers
 - C. barter, checks, paper currency, coins made of precious metals, electronic funds transfers
 - D. barter, checks, paper currency, electronic funds transfers
11. If an individual moves money from a demand deposit account to a money market deposit account
- A. M1 decreases and M2 stays the same
 - B. M1 stays the same and M2 increases

- C. M1 stays the same and M2 stays the same.
 - D. M1 increases and M2 decreases.
12. If an individual moves money from currency to a demand deposit account
- A. M1 decreases and M2 stays the same.
 - B. M1 stays the same and M2 increases
 - C. M1 stays the same and M2 stays the same.
 - D. M1 increases and M2 stays the same.
13. If an individual moves money from a money market deposit account to currency
- A. M1 increases and M2 stays the same.
 - B. M1 stays the same and M2 increases.
 - C. M1 stays the same and M2 stays the same.
 - D. M1 increases and M2 decreases.
14. Explain how cigarettes could be called "money" in prisoner-of-war camps of World War II.