

University of Lethbridge — Department of Economics
ECON 1012 — Introduction to Macroeconomics
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CH 24 — Money Price Inflation

1) Money is

- A) currency plus coins.
- B) the same as gold.
- C) equivalent to barter.
- D) currency plus credit cards plus debit cards.
- E) a means of payment.

Topic: What Is Money?

2) Which of the following best fits the definition of money?

- A) Gold.
- B) An obligation between the parties to a transaction.
- C) Any medium of exchange.
- D) Any commodity or token that is generally acceptable as a means of payment.
- E) Any unit of account.

Topic: What Is Money?

3) If you can find someone to swap what you have for what you want, then

- A) money is necessary for the exchange to work.
- B) there exists a double system of money.
- C) there exists a double coincidence of wants.
- D) specialization is impossible in the society in which you live.
- E) there exists a monetary exchange system.

Topic: What Is Money?

4) Without money to act as a medium of exchange,

- A) barter exchange would allow for a much simpler yet increased standard of living.
- B) all exchanges that take place under a monetary system would still take place.
- C) the standard of living in the economy would increase.
- D) the increased transaction costs associated with trading would prohibit some trades from taking place.
- E) independence in production would lead to a proliferation of new products.

Topic: What Is Money?

5) Money's function as a unit of account can best be described as

- A) an agreed measure for stating the prices of goods and services.
- B) an entry in an accounting ledger.
- C) a method of recording transactions.
- D) a generally accepted medium of exchange.
- E) a commodity that can be exchanged for another commodity.

Topic: What Is Money?

6) Which one of the following is *not* a function of money?

- A) store of value
- B) unit of account
- C) medium of exchange
- D) measure of liquidity
- E) means of payment

Topic: What Is Money?

7) Which of the following is a function of money?

- A) A means of pooling risk.
- B) A medium of exchange.
- C) A means of reducing transactions costs.
- D) A measure of liquidity.
- E) A store of exchange.

Topic: What Is Money?

8) Money's function as a store of value can best be described as

- A) an agreed measure for stating the prices of goods and services.
- B) a generally acceptable exchange system.
- C) an efficient means of writing contracts over a long time period.
- D) a guarantee of a double coincidence of wants.
- E) something that can be held and exchanged later for goods and services.

Topic: What Is Money?

9) The higher and more unpredictable the changes in a monetary unit, the

- A) less likely it will be used as a store of value.
- B) more confidence people will have in holding it for the future.
- C) more likely it will be used as a store of value.
- D) more likely it will be used as a standard of deferred payment.
- E) less likely contracts will be written to counterbalance the uncertainty of its value in the future.

Topic: What Is Money?

10) The higher and more unpredictable the changes in the monetary unit, the

- A) lower the opportunity cost of using it as a standard of deferred payment.
- B) lower the opportunity cost of using it as a store of value.
- C) higher the opportunity cost of using it as a store of value.
- D) lower the opportunity cost of using it as a medium of exchange.
- E) less likely barter exchange will replace it.

Topic: What Is Money?

11) Money can take the form of any one of the following *except*

- A) Bank of Canada notes.
- B) a credit card.
- C) a saving deposit.
- D) a chequing deposit.
- E) coins.

Topic: What Is Money?

12) The official definitions of money can include all of the following *except*

- A) cheques.
- B) currency outside banks.
- C) non-chequable deposits.
- D) personal chequable deposits.
- E) deposits at trust and mortgage loan companies.

Topic: What Is Money?

13) Which of the following is *not* considered money in Canada today?

- A) Bank of Canada notes.
- B) Deposits at banks.
- C) Coins.
- D) Debit cards.
- E) Deposits at credit unions.

Topic: What Is Money?

14) Which one of the following items is *not* included in the M1 definition of money?

- A) Currency outside banks.
- B) Personal chequable deposits.
- C) Non-personal chequable deposits.
- D) Fixed term deposits.
- E) Neither B nor D are part of M1.

Topic: What Is Money?

15) The largest component of M1 is

- A) non-personal non-chequable deposits.
- B) currency outside banks.
- C) personal chequable deposits.
- D) fixed term deposits.
- E) non-personal chequable deposits.

Topic: What Is Money?

16) Using a credit card can best be likened to

- A) using any other form of money, because you can immediately take the goods you purchase home.
- B) writing a cheque on your chequable deposit.
- C) withdrawing money from a savings account.
- D) a barter exchange.
- E) taking out a loan.

Topic: What Is Money?

17) Which of the following assets is the *most* liquid?

- A) A credit card.
- B) A line of credit.
- C) Cash.
- D) A Canada Savings Bond.
- E) A house.

Topic: What Is Money?

18) If the prices of goods and services are stated in terms of kilograms of salt, then salt is

- A) quasi-money.
- B) a store of value.
- C) a standard of deferred payment.
- D) a unit of account.
- E) a medium of exchange.

Topic: What Is Money?

19) Which one of the following is a component of M2 but not of M1?

- A) Currency in a bank vault.
- B) Currency outside banks.
- C) Personal chequable deposits.
- D) Personal non-chequable deposits.
- E) Canada Savings Bonds.

Topic: What Is Money?

20) Which one of the following is *not* a store of value?

- A) Fixed term deposits.
- B) Credit cards.
- C) Personal chequable deposits.
- D) Non-chequable deposits.
- E) Non-personal chequable deposits.

Topic: What Is Money?

21) Which of the following is a store of value?

- A) A cheque.
- B) A credit card.
- C) A fixed term deposit.
- D) A debit card.
- E) All of the above.

Topic: What Is Money?

22) Which one of the following is considered to be money?

- A) A chequable deposit.
- B) A debit card.
- C) A blank cheque.
- D) A credit card.
- E) A Canada Savings Bond.

Topic: What Is Money?

23) Which one of the following is considered to be money?

- A) A debit card.
- B) Currency.
- C) A cheque.
- D) A credit card.
- E) All of the above.

Topic: What Is Money?

24) Which one of the following is *not* money?

- A) A credit card.
- B) A non-chequable deposit.
- C) Canadian currency.
- D) A chequable deposit.
- E) A fixed term deposit.

Topic: What Is Money?

25) Anything can be money as long as it

- A) meets the double coincidence of wants.
- B) has low transaction costs.
- C) is acceptable as a medium of exchange.
- D) is not too bulky.
- E) has intrinsic worth.

Topic: What Is Money?

26) Consider the following data from the economy of Adanac:

- Currency outside banks: \$15 billion
- Personal and non-personal chequable deposits: \$40 billion
- Personal non-chequable deposits: \$50 billion
- Non-personal non-chequable deposits: \$125 billion
- Fixed term deposits: \$200 billion

What is the value of M1 and the value of M2 in this economy in billions of dollars?

- A) 110; 235.
- B) 60; 430.
- C) 55; 230.
- D) 55; 430.
- E) 105; 230.

Topic: What Is Money?

27) Barter can only take place if there is

- A) a double coincidence of wants.
- B) a double coincidence of money.
- C) money.
- D) no inflation.
- E) none of the above.

Topic: What Is Money?

28) If Wolfgang transfers \$1,000 out of his chequable deposit account and places it in his non-chequable deposit account,

- A) M1 falls and M2 rises.
- B) M1 rises and M2 remains the same.
- C) M1 falls and M2 remains the same.
- D) M1 and M2 fall.
- E) M1 falls and M3 rises.

Topic: What Is Money?

29) If Wolfgang transfers \$1,000 out of his non-chequable deposit account and places it in his chequable deposit account,

- A) M1 falls and M2 remains the same.
- B) M1 rises and M2 remains the same.
- C) M1 falls and M2 rises.
- D) M1 falls and M3 rises.
- E) M1 and M2 fall.

Topic: What Is Money?

30) Which one of the following is most liquid?

- A) Cheques.
- B) Government bonds.
- C) Debit cards.
- D) Real estate.
- E) Chequable deposits.

Topic: What Is Money?

31) Liquidity is

- A) a high-risk asset.
- B) the same as currency.
- C) the degree of certainty of the price of an asset.
- D) the ease with which an asset can be converted into a medium of exchange.
- E) net flow of gold into the Bank of Canada.

Topic: What Is Money?

Use the information below to answer the following question.

Fact 24.1.1

The information describes a hypothetical banking system. Assume that all banks are holding their desired reserves.

Actual reserves in banking system	\$1,000
Total chequable deposits	\$5,500
Securities held by chartered banks	\$1,000
Currency outside banks	\$500

32) Refer to Fact 24.1.1. The quantity of money as measured by M1 is equal to

- A) \$7,000.
- B) \$6,000.
- C) \$2,500.
- D) \$1,500.
- E) \$6,500.

Topic: What Is Money?

33) Which one of the following would *not* be considered a depository institution?

- A) A credit union.
- B) A *caisse populaire*.
- C) The Bank of Montreal.
- D) A trust and mortgage loan company.
- E) The Bank of Canada.

Topic: The Banking System

34) A private firm that takes deposits from households and firms and makes loans to other households and firms is

- A) a credit company.
- B) a stockbroker.
- C) a depository institution.
- D) a usurer.
- E) an insurance company.

Topic: The Banking System

35) Which one of the following is *not* a depository institution?

- A) A trust and mortgage loan company.
- B) A *caisse populaire*.
- C) A credit union.
- D) A car insurance company.
- E) A foreign-owned chartered bank.

Topic: The Banking System

36) Which one of the following is *not* a depository institution?

- A) A foreign-owned chartered bank.
- B) A car insurance company.
- C) A trust and mortgage loan company.
- D) A credit union.
- E) A *caisse populaire*.

Topic: The Banking System

37) In 2008, chartered banks held reserves equal to approximately _____ percent of deposits.

- A) 0.04
- B) 4.0
- C) 14.0
- D) 0.14
- E) 0.4

Topic: The Banking System

38) The reserves of a bank include

- A) the cash in its vault plus the value of its chequable deposits.
- B) all of its common stock holdings, the cash in its vault, and all deposits held on account with the Bank of Canada.
- C) the cash in its vault plus any gold held for the bank at the Bank of Canada.
- D) the cash in its vault plus any deposits held on account at the Bank of Canada.
- E) the cash in its vault plus any deposits held on account with the Bank of Canada plus the value of any government bonds that it holds.

Topic: The Banking System

39) Which one of the following is *not* a service of depository institutions?

- A) Providing a place for reserve account deposits.
- B) Lowering the cost of monitoring borrowers.
- C) Creating liquidity.
- D) Pooling risk.
- E) Lowering the cost of borrowing.

Topic: The Banking System

40) Pooling risk

- A) refers to a default contract made by a bank to other banks.
- B) is now illegal under the Nuisance Act of 1987.
- C) refers to the lower cost of obtaining funds from a depository institution.
- D) refers to spreading the risk of loan default among all the depositors within the depository institution.
- E) occurs when one person lends to an entire group or pool of borrowers.

Topic: The Banking System

41) The Bank of Canada does *not* do which of the following?

- A) Issue bank notes.
- B) Supervise chartered banks.
- C) Hold government of Canada securities.
- D) Lend money to the public.
- E) Act as a lender of last resort to banks.

Topic: The Banking System

42) The Bank of Canada is the lender of last resort. This means banks may borrow money from the Bank of Canada

- A) if the banking system as a whole is short of reserves.
- B) to finance a sudden and dramatic increase in overseas reserves.
- C) overnight.
- D) whenever they are short of reserves.
- E) if they have sufficient securities to support the loan.

Topic: The Banking System

- 43) Longer term Canadian government bonds, compared with government of Canada Treasury bills,
- A) are more readily convertible to cash without risk of monetary loss.
 - B) fluctuate in value, are riskier and therefore carry a higher interest rate.
 - C) bear a lower interest rate.
 - D) can be sold more quickly.
 - E) are more readily convertible to cash but take longer to sell.

Topic: The Banking System

- 44) Which of the following statements about depository institutions is *false*?
- A) They keep reserves to meet cash withdrawals.
 - B) They borrow at lower interest rates and lend at higher rates.
 - C) They pool, and therefore reduce, risk.
 - D) A credit union is an example of a depository institution.
 - E) They create liquidity by borrowing long and lending short.

Topic: The Banking System

- 45) Which of the following statements about the Large Value Transfer System is true?
- A) On an average day, it handles \$17 billion worth of payments.
 - B) It allows all bank borrowers to pay their loans.
 - C) It is operated by the government of Canada.
 - D) It allows financial institutions and their customers to make large payments instantly.
 - E) It is owned by the Bank of Canada.

Topic: The Banking System

- 46) Which of the following is not true about the Automated Clearing Settlement System (ACSS)? It deals with payments
- A) of small value.
 - B) such as cheques and small-value electronic payments.
 - C) not processed by LVTS.
 - D) of approximately \$140 billion per day.
 - E) processed through electronic machines.

Topic: The Banking System

- 47) The *payments system* refers to the system through which
- A) individuals make payments to each other to settle transactions.
 - B) the Bank of Canada makes settlements with chartered banks.
 - C) bankruptcies are declared.
 - D) bank notes are issued by the Bank of Canada.
 - E) banks make payments to each other to settle transactions by their customers.

Topic: The Banking System

- 48) Which of the following is an economic function of a chartered bank?
- A) Pooling risk.
 - B) Supervising financial markets.
 - C) Conducting monetary policy.
 - D) Issuing bank notes.
 - E) None of the above.

Topic: The Banking System

- 49) Which of the following does *not* affect the size of the monetary base?
- A) The amount of notes issued by the Bank of Canada.
 - B) The amount of coins issued by the Canadian Mint.
 - C) The amount of loans issued by chartered banks.
 - D) The amount of chartered bank deposits at the Bank of Canada.
 - E) None of the above.

Topic: The Banking System

- 50) The Monetary Base consists of the sum of
- A) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.
 - B) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.
 - C) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks.
 - D) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and notes and coins held by banks.
 - E) Bank of Canada notes held outside the Bank of Canada, the desired reserves of chartered banks, and coins held by banks.

Topic: The Banking System

- 51) The reserve ratio of a depository institution is the
- A) ratio of a bank's total reserves that are held in its vault or on deposit with the Bank of Canada to total deposits.
 - B) ratio of a bank's total reserves that are held in an account with the Bank of Canada only to total deposits.
 - C) ratio of a bank's total reserves that a bank regards as necessary to conduct its business to total deposits.
 - D) ratio of a bank's total reserves that are held in its vault in cash only to total deposits.
 - E) ratio of excess reserves to total deposits.

Topic: How Banks Create Money

- 52) The reserve ratio of a depository institution is the
- A) ratio of a bank's total reserves that are held in its vault or on deposit with the Bank of Canada to total deposits.
 - B) ratio of excess reserves to total deposits.
 - C) ratio of a bank's total reserves that are held in its vault in cash only to total deposits.
 - D) ratio of a bank's total reserves that a bank regards as necessary to conduct its business to total deposits.
 - E) ratio of a bank's total reserves that are held in an account with the Bank of Canada only to total deposits.

Topic: How Banks Create Money

- 53) If a customer of a bank makes a withdrawal from his chequable deposit account,
- A) the bank's reserve ratio decreases.
 - B) M1 decreases.
 - C) the bank's reserve ratio increases.
 - D) M2 decreases.
 - E) the bank's reserve ratio remains the same.

Topic: How Banks Create Money

- 54) A bank can create money by
- A) printing more cheques.
 - B) converting reserves into securities.
 - C) selling some of its securities.
 - D) lending its excess reserves.
 - E) increasing its reserves.

Topic: How Banks Create Money

- 55) Excess reserves are
- A) liquidity funds minus actual reserves.
 - B) actual reserves minus desired reserves.
 - C) required reserves minus desired reserves.
 - D) required reserves minus actual reserves.
 - E) desired reserves minus actual reserves.

Topic: How Banks Create Money

56) Whenever desired reserves exceed actual reserves, the bank

- A) can make new loans.
- B) has excess reserves.
- C) is in a profit-making position.
- D) will call in loans.
- E) will go out of business.

Topic: How Banks Create Money

57) Whenever actual reserves exceed desired reserves, the bank

- A) can make new loans.
- B) will go out of business.
- C) will borrow funds from another bank.
- D) will raise the interest rate on its loans.
- E) needs to call in loans.

Topic: How Banks Create Money

58) The ratio of currency to deposits is the

- A) excess reserve ratio.
- B) monetary reserve ratio.
- C) reserve ratio.
- D) currency ratio.
- E) currency drain ratio.

Topic: How Banks Create Money

59) The money creation process begins when

- A) desired reserves increase because of an increase in deposits.
- B) banks lend reserves.
- C) bank deposits increase.
- D) the quantity of money increases.
- E) banks have excess reserves.

Topic: How Banks Create Money

60) If people decide to transfer their currency into their bank deposits then, all else constant, their decisions will

- A) increase the actual reserves of banks.
- B) cause lower inflation.
- C) cause the quantity of money to increase immediately.
- D) cause the quantity of money to decrease.
- E) cause higher real interest rates.

Topic: How Banks Create Money

61) Suppose that a country has \$50 billion in bank reserves, \$100 billion in currency held by the public, and \$500 billion in bank deposits. The currency drain ratio is

- A) 10%.
- B) 18%.
- C) 20%.
- D) 50%.
- E) 30%.

Topic: How Banks Create Money

Use the information below to answer the following questions.

Fact 24.3.1

The Bank of Speedy Creek has chosen the following initial balance sheet:

Assets		Liabilities	
Reserves	\$40	Deposits	\$500
Loans	<u>\$460</u>		
	\$500		

62) Refer to Fact 24.3.1. Based on the Bank of Speedy Creek's initial balance sheet, what is its desired reserve ratio?

- A) 12.5 percent
- B) 4 percent
- C) 40 percent
- D) 8 percent
- E) 25 percent

Topic: How Banks Create Money

63) Refer to Fact 24.3.1. Huck Finn comes along and deposits \$10. After Huck's deposit, but before any other actions occur, the total amount of money in the economy

- A) has risen, with currency unchanged and deposits increasing.
- B) has stayed the same, with its components unchanged.
- C) has fallen, with currency decreasing and deposits unchanged.
- D) has stayed the same, with currency decreasing and deposits increasing.
- E) has fallen, with currency decreasing and deposits staying the same.

Topic: How Banks Create Money

Use the information below to answer the following questions.

Fact 24.3.2

The Bank of Hobbiton has chosen the following initial balance sheet:

Assets		Liabilities	
Reserves	\$100	Deposits	\$2,000
Loans	<u>\$1,900</u>		
	\$2,000		

64) Refer to Fact 24.3.2. Based on the Bank of Hobbiton's initial balance sheet, what is its desired reserve ratio?

- A) 5 percent
- B) 100 percent
- C) 10 percent
- D) 20 percent
- E) not calculable with the available information

Topic: How Banks Create Money

65) Refer to Fact 24.3.2. Bilbo Baggins comes to the bank and deposits a \$100 bill. After Bilbo's deposit, but before any other actions occur, the total quantity of money in the economy

- A) has fallen, with currency decreasing and deposits staying the same.
- B) has fallen, with currency decreasing and deposits unchanged.
- C) has stayed the same, with currency decreasing and deposits increasing.
- D) has stayed the same, with its components unchanged.
- E) has risen, with currency unchanged and deposits increasing.

Topic: How Banks Create Money

- 66) The Canadian money multiplier is calculated as the
- A) change in quantity of bank notes divided by the change in monetary base.
 - B) change in the quantity of money divided by the change in the monetary base.
 - C) change in monetary base divided by the change in quantity of money.
 - D) change in monetary base divided by the change in deposits.
 - E) change in monetary base divided by the change in monetary holdings of households.

Topic: How Banks Create Money

- 67) The quantity of money that the banking system can create is limited by
- A) bank managers' decisions.
 - B) the monetary base, desired reserves, and desired currency holdings.
 - C) the credit ratings of the consumers who are applying for loans.
 - D) the quantity of bank notes released by the Bank of Canada.
 - E) the number of consumers who apply for loans.

Topic: How Banks Create Money

- 68) The opportunity cost of holding money increases when the
- A) interest rate rises.
 - B) purchasing power of money increases.
 - C) price of goods and services decrease.
 - D) income of consumers increases.
 - E) income of consumers decreases.

Topic: The Market for Money

- 69) Choose the correct statement.
- A) The quantity of money measured in dollars is nominal money.
 - B) The quantity of money measured in constant dollars is nominal money.
 - C) As the interest rate rises, the quantity of real money demanded increases.
 - D) As real GDP increase the quantity of nominal money demanded decreases.
 - E) The quantity of nominal money demanded is inversely related to the price level.

Topic: The Market for Money

- 70) If the price level doubles, all else constant, the quantity of
- A) real money demanded will double.
 - B) real money demanded will half.
 - C) nominal money demanded will double.
 - D) nominal money demanded will remain constant.
 - E) nominal money demanded will half.

Topic: The Market for Money

- 71) Real money is equal to
- A) nominal income divided by the velocity of circulation.
 - B) the price level divided by nominal money.
 - C) nominal income divided by the price level.
 - D) nominal money divided by nominal income.
 - E) nominal money divided by the price level.

Topic: The Market for Money

- 72) Nominal money is equal to real
- A) GDP times the GDP deflator.
 - B) money divided by the price level.
 - C) GDP times real money.
 - D) money times the price level.
 - E) GDP times the price level.

Topic: The Market for Money

73) Everything else remaining the same, an increase in real GDP

- A) decreases the demand for real money up to a point, and then demand will automatically rise.
- B) increases the demand for real money.
- C) does not change the demand for real money.
- D) increases the demand for real money up to a point, and then demand will automatically fall.
- E) decreases the demand for real money.

Topic: The Market for Money

Use the figure below to answer the following questions.

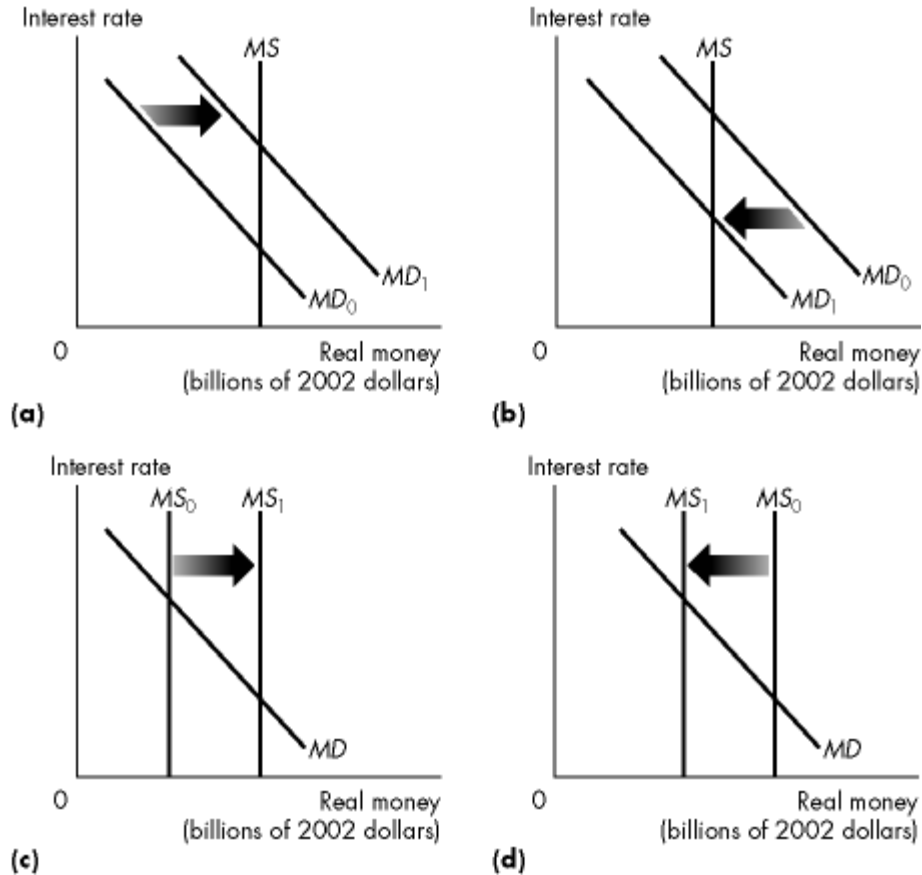


Figure 24.4.1

74) Refer to Figure 24.4.1. Everything else remaining the same, which graph best shows an increase in real GDP?

- A) (a)
- B) (b)
- C) (c)
- D) (d)
- E) (a) and (c)

Topic: The Market for Money

75) Refer to Figure 24.4.1. Everything else remaining the same, which graph best shows a decrease in real GDP?

- A) (a)
- B) (b)
- C) (c)
- D) (d)
- E) (a) and (c)

Topic: The Market for Money

Use the figure below to answer the following questions.

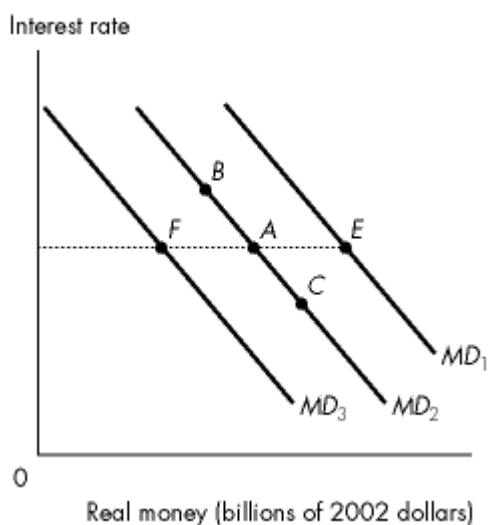


Figure 24.4.2

76) Refer to Figure 24.4.2. Which one of the following best describes the response to an increase in real GDP?

- A) Movement from A to C.
- B) Movement from A to F.
- C) Movement from E to A.
- D) Movement from B to A.
- E) Movement from A to E.

Topic: The Market for Money

77) Refer to Figure 24.4.2. Which one of the following best describes the response to a decrease in real GDP?

- A) A movement from E to A.
- B) A movement from A to B.
- C) A movement from A to E.
- D) A movement from E to C.
- E) A movement from A to C.

Topic: The Market for Money

78) Refer to Figure 24.4.2. Which one of the following best describes the response to a decrease in the market price of bonds?

- A) A movement from E to A.
- B) A movement from A to B.
- C) A movement from A to E.
- D) A movement from A to F.
- E) A movement from A to C.

Topic: The Market for Money

79) Refer to Figure 24.4.2. Which one of the following best describes the response to a rise in the market price of bonds?

- A) A movement from A to F.
- B) A movement from A to C.
- C) A movement from A to B.
- D) A movement from C to A.
- E) A movement from A to E.

Topic: The Market for Money

80) Refer to Figure 24.4.2. Which one of the following best describes the response to a rise in the price level?

- A) A movement from *A* to *E*.
- B) A movement from *A* to *B*.
- C) A movement from *A* to *C*.
- D) A movement from *A* to *F*.
- E) None of the above.

Topic: The Market for Money

81) The amount of real money people want to hold will increase if either the amount they are spending increases or the

- A) price level decreases.
- B) price of bond falls.
- C) interest rate decreases.
- D) price level increases.
- E) interest rate increases.

Topic: The Market for Money

82) The amount of real money people want to hold will decrease if either the rate of interest increases or

- A) the price level increases.
- B) the price level decreases.
- C) the price of bonds increase.
- D) real GDP decreases.
- E) real GDP increases.

Topic: The Market for Money

83) The demand for money in Canada reveals which of the following?

- A) An inverse relationship between *M1* and the interest rate.
- B) A decrease in the demand for *M1* during the 1980s.
- C) An inverse relationship between *M2* and the interest rate.
- D) A decrease in the demand for *M2* during the 1990s.
- E) All of the above.

Topic: The Market for Money

84) Which one of the following will shift the demand for money curve rightward?

- A) A decrease in the price level.
- B) An increase in real GDP.
- C) An increase in the interest rate.
- D) A decrease in the interest rate.
- E) An increase in the price level.

Topic: The Market for Money

85) If households and firms find they are holding less money than desired, they will

- A) buy goods, and the price level will rise.
- B) buy bonds, and the interest rate will fall.
- C) sell bonds, and the interest rate will fall.
- D) buy bonds, and the interest rate will rise.
- E) sell bonds, and the interest rate will rise.

Topic: The Market for Money

86) If households and firms find they are holding more money than desired, they will

- A) buy bonds, and the interest rate will fall.
- B) sell bonds, and the interest rate will rise.
- C) sell bonds, and the interest rate will fall.
- D) buy bonds, and the interest rate will rise.
- E) buy goods, and the price level will rise.

Topic: The Market for Money

87) The opportunity cost of holding currency is

- A) the real interest rate.
- B) the inflation rate.
- C) consumption given up.
- D) the nominal interest rate.
- E) the price level.

Topic: The Market for Money

88) The opportunity cost of holding currency is

- A) the inflation rate.
- B) consumption given up.
- C) the price level.
- D) the nominal interest rate.
- E) the real interest rate.

Topic: The Market for Money

89) Money market equilibrium occurs

- A) when the level of real GDP is constant.
- B) when bond prices are constant.
- C) when the quantity of real money supplied equals the quantity of real money demanded.
- D) only under a fixed exchange rate.
- E) when interest rates are constant.

Topic: The Market for Money

90) If the interest rate is above the equilibrium rate, how is equilibrium achieved in the money market?

- A) People buy goods to get rid of their excess money, lowering the price of goods and lowering the interest rate.
- B) People sell goods to get rid of their excess money, lowering the price of goods and lowering the interest rate.
- C) People buy bonds to get rid of their excess money, raising the price of bonds and lowering the interest rate.
- D) People sell bonds to get rid of their excess money, lowering the price of bonds and lowering the interest rate.
- E) People sell bonds to get rid of their excess money, raising the price of bonds and lowering the interest rate.

Topic: The Market for Money

91) If the interest rate is below the equilibrium, how is equilibrium achieved in the money market?

- A) People sell bonds to get rid of their excess money, lowering the price of bonds and raising the interest rate.
- B) People buy goods to get rid of their excess money, lowering the price of goods and raising the interest rate.
- C) People buy bonds to get rid of their excess money, raising the price of bonds and raising the interest rate.
- D) People sell bonds to try and raise more money, lowering the price of bonds and raising the interest rate.
- E) People sell goods to get rid of their excess money, lowering the price of goods and raising the interest rate.

Topic: The Market for Money

92) If the price of a bond is \$1,000 and the fixed annual income from the bond is \$100, then the interest rate on the bond is

- A) 10 percent.
- B) 20 percent.
- C) 200 percent.
- D) 5 percent.
- E) none of the above.

Topic: The Market for Money

Use the table below to answer the following questions.

Table 24.4.1

	A	B	C
1	r	Y_0	Y_1
2	7	1.0	1.5
3	6	1.5	2.0
4	5	2.0	2.5
5	4	2.5	3.0
6	3	3.0	3.5
7	2	3.5	4.0
8	1	4.0	4.5

- 93) Refer to Table 24.4.1. The spreadsheet provides information about the demand for money in Minland. Column A is the nominal interest rate, r . Columns B and C show the quantity of money demanded at two different levels of real GDP: Y_0 is \$10 billion and Y_1 is \$20 billion.

The quantity of money is \$3 billion. Initially, real GDP is \$20 billion.

If the interest rate is less than 4 percent a year

- A) people sell bonds, the price of a bond falls, and the interest rate rises.
- B) the demand for money increases.
- C) people buy bonds, the price of a bond rises, and the interest rate rises.
- D) people sell bonds, the price of a bond falls, and the interest rate falls.
- E) people buy bonds, the price of a bond rises, and the interest rate falls.

Topic: The Market for Money

- 94) Refer to Table 24.4.1. The spreadsheet provides information about the demand for money in Minland. Column A is the nominal interest rate, r . Columns B and C show the quantity of money demanded at two different levels of real GDP: Y_0 is \$10 billion and Y_1 is \$20 billion.

The quantity of money is \$3 billion. Initially, real GDP is \$20 billion.

If the interest rate is greater than 4 percent a year

- A) people sell bonds, the price of a bond falls, and the interest rate rises.
- B) the demand for money decreases.
- C) people sell bonds, the price of a bond falls, and the interest rate falls.
- D) people buy bonds, the price of a bond rises, and the interest rate falls.
- E) people buy bonds, the price of a bond rises, and the interest rate rises.

Topic: The Market for Money

- 95) The quantity theory of money begins with the equation of exchange, $MV = PY$, and then adds the assumptions that
- A) velocity and the price level are independent of the quantity of money.
 - B) potential GDP and the price level are independent of the quantity of money.
 - C) potential GDP and the quantity of money are independent of the price level.
 - D) velocity varies inversely with the interest rate, and the price level is independent of the quantity of money.
 - E) velocity and potential GDP are independent of the quantity of money.

Topic: The Quantity Theory of Money

- 96) According to the quantity theory of money, an increase in the quantity of money will increase the price level
- A) and increase real GDP but decrease the velocity of circulation.
 - B) and decrease real GDP and increase the velocity of circulation.
 - C) and increase real GDP and the velocity of circulation.
 - D) and will have no change in real GDP and a decrease in the velocity of circulation.
 - E) but have no effect on real GDP or the velocity of circulation.

Topic: The Quantity Theory of Money

97) GDP is \$2,000 billion, the price level is 100, and the velocity of circulation is 5. The quantity of money is

- A) \$20 billion.
- B) \$10,000 billion.
- C) \$400 billion.
- D) \$500 billion.
- E) \$2,000 billion.

Topic: The Quantity Theory of Money

98) Real GDP is \$2,000 billion, the price level is 120, and the velocity of circulation is 5. Nominal GDP is

- A) \$2,400 billion.
- B) \$2,000 billion.
- C) \$600 billion.
- D) \$24 billion.
- E) \$166.67 billion.

Topic: The Quantity Theory of Money

99) Real GDP is \$2,560 billion, the price level is 125, and the velocity of circulation is 5. The quantity of money is

- A) \$625 billion.
- B) \$640 billion.
- C) \$400 billion.
- D) \$2,048 billion.
- E) \$20.48 billion.

Topic: The Quantity Theory of Money

100) Real GDP is \$2,560 billion, the quantity of money \$800 billion, and the velocity of circulation is 4. The price level is

- A) 3,200.
- B) 6.4.
- C) 125.
- D) 3.2.
- E) 1,000.

Topic: The Quantity Theory of Money

101) Real GDP is \$2,560 billion, the quantity of money \$800 billion, and the velocity of circulation is 4. The price level is

- A) 3.2.
- B) 125.
- C) 6.4.
- D) 3,200.
- E) 1,000.

Topic: The Quantity Theory of Money

102) According to the quantity theory of money, in the long run

- A) M/P is constant.
- B) Y/M is constant.
- C) M/V is constant.
- D) V/M is constant.
- E) Y/P is constant.

Topic: The Quantity Theory of Money

- 103) International evidence shows us that
- A) in the long run a 1 percent increase in the growth rate of money causes a 1 percent increase in inflation.
 - B) there is a general tendency for money growth and inflation to be correlated and the quantity theory predicts inflation precisely.
 - C) there is a general tendency for money growth and inflation to be inversely related, and the quantity theory is a poor predictor of inflation.
 - D) money growth and inflation are always rising, and the quantity theory predicts inflation accurately.
 - E) there is a general tendency for money growth and inflation to be correlated but the quantity theory does not predict inflation precisely.

Topic: The Quantity Theory of Money

- 104) On the average in Canada, the inflation rate and the money growth rate minus real GDP growth rate
- A) are not related.
 - B) rise and fall together.
 - C) move in opposite directions.
 - D) are always equal.
 - E) are always rising.

Topic: The Quantity Theory of Money

- 105) Quantecon is a country in which the quantity theory of money operates. The country has a constant population, capital stock, and technology. In year 1, real GDP was \$400 million, the price level was 200, and the velocity of circulation was 20.

In year 2 the quantity of money was 20 percent higher than in year 1.

The quantity of money in year 1 was _____.

The quantity of money in year 2 was _____.

The price level in year 2 is _____.

- A) \$20 million; \$24 million; 220
- B) \$80 million; \$88 million; 200
- C) \$40 million; \$48 million; 240
- D) \$20 million; 24 million; 240
- E) \$40 million; \$48 million; 220

Topic: The Quantity Theory of Money

- 106) Suppose that people decide to hold more money as cash. Which statement best illustrates the impact of this action on the money multiplier? The money multiplier
- A) decreases because of the decrease in the currency drain ratio.
 - B) increases because of the decrease in the currency drain ratio.
 - C) decreases because of the increase in the currency drain ratio.
 - D) increases because of the increase in the currency drain ratio.
 - E) increases because of a decrease in deposits.

Topic: Mathematical Note: The Money Multiplier

- 107) Suppose that people decide to hold more money as cash. Which statement best illustrates the impact of this action on the money multiplier? The money multiplier
- A) increases because of a decrease in deposits.
 - B) increases because of the increase in the currency drain ratio.
 - C) increases because of the decrease in the currency drain ratio.
 - D) decreases because of the increase in the currency drain ratio.
 - E) decreases because of the decrease in the currency drain ratio.

Topic: Mathematical Note: The Money Multiplier

108) Which of the following will increase the size of the money multiplier?

- A) A decrease in the desired reserve ratio.
- B) An increase in the currency drain ratio.
- C) A decrease in the currency drain ratio.
- D) An increase in the desired reserve ratio.
- E) Either A or C above.

Topic: Mathematical Note: The Money Multiplier

109) The money multiplier will decrease if the currency drain ratio

- A) increases or the desired reserve ratio increases.
- B) increases or the desired reserve ratio decreases.
- C) decreases or the desired reserve ratio increases.
- D) decreases or the desired reserve ratio decreases.
- E) decreases and the monetary base increases.

Topic: Mathematical Note: The Money Multiplier

110) Suppose that the desired reserve ratio is 0.25 and the currency drain ratio is 0.25. The money multiplier is

- A) 2.40.
- B) 2.08.
- C) 1.40.
- D) 2.50.
- E) 1.71.

Topic: Mathematical Note: The Money Multiplier

111) Suppose that the banking system has excess reserves of \$10 million, the desired reserve ratio is 10 percent and the currency drain ratio is 40 percent. By how much will the quantity of money increase?

- A) \$28 million.
- B) \$50 million.
- C) \$22 million.
- D) \$40 million.
- E) \$12.5 million.

Topic: Mathematical Note: The Money Multiplier

Use the information below to answer the following questions.

Fact 24.6.1

The Bank of Speedy Creek has chosen the following initial balance sheet:

Assets		Liabilities	
Reserves	\$40	Deposits	\$500
Loans	<u>\$460</u>		
	\$500		

112) Refer to Fact 24.6.1. Suppose all the banks in the banking system have the same desired reserve ratio as the Bank of Speedy Creek. If the currency drain ratio is 32 percent, what is the size of the money multiplier?

- A) 2.7
- B) 3.3
- C) 5.0
- D) 4.0
- E) 1.25

Topic: Mathematical Note: The Money Multiplier

113) The Canadian currency drain ratio for M1 is approximately _____ percent in 2008.

- A) 75
- B) 14
- C) 34
- D) 24
- E) 10

Topic: Mathematical Note: The Money Multiplier

114) Canada's M1 multiplier is _____ than Canada's M2 multiplier because the currency drain for M1 is _____ than for M2, and the desired reserve ratio for M1 is _____ than for M2.

- A) smaller; larger; larger
- B) smaller; larger; smaller
- C) larger; smaller; larger
- D) smaller; smaller; smaller
- E) larger; smaller; smaller

Topic: Mathematical Note: The Money Multiplier

115) The money multiplier can also be calculated as _____, where a is the currency drain ratio and b is the desired reserve ratio.

- A) $(1 + b) \div (a + b)$
- B) $(a + b) \div (1 + b)$
- C) $a \div (a + b)$
- D) $(1 + a) \div (a + b)$
- E) $(a + b) \div (1 + a)$

Topic: Mathematical Note: The Money Multiplier

116) In the United Kingdom, the currency drain ratio is 0.38 and the desired reserve ratio is 0.002.

The U.K. money multiplier is

- A) 2.77.
- B) 0.28.
- C) 0.38.
- D) 3.61.
- E) 2.62.

Topic: Mathematical Note: The Money Multiplier

117) You are given the following information about the economy of Nocoins:

The banks have deposits of \$300 billion. Their reserves are \$15 billion, two thirds of which is in deposits with the central bank. Households and firms hold \$30 billion in bank notes. There are no coins!

The banks have no excess reserves.

The Bank of Nocoins, the central bank, increases bank reserves by \$0.5 billion.

The quantity of money _____.

The change in the quantity of money is not equal to the change in the monetary base because _____.

The money multiplier is _____.

- A) decreases; an increase in monetary base brings about a decrease in the quantity of money; 7.33
- B) decreases; money includes currency but the monetary base does not include currency; 7.0
- C) increases; the monetary base includes bank deposits; 7.0
- D) increases; the components of the monetary base are not the components of the quantity of money; 7.0
- E) increases; when bank reserves increase, banks loan out their excess reserves and a multiplier process ensues; 7.33

Topic: Mathematical Note: The Money Multiplier

Answer Key

Testname: 24 MONEY PRICE INFL

- | | | |
|-------|--------|--------|
| 1) E | 59) E | 117) E |
| 2) D | 60) A | |
| 3) C | 61) C | |
| 4) D | 62) D | |
| 5) A | 63) D | |
| 6) D | 64) A | |
| 7) B | 65) C | |
| 8) E | 66) B | |
| 9) A | 67) B | |
| 10) C | 68) A | |
| 11) B | 69) A | |
| 12) A | 70) C | |
| 13) D | 71) E | |
| 14) D | 72) D | |
| 15) E | 73) B | |
| 16) E | 74) A | |
| 17) C | 75) B | |
| 18) D | 76) E | |
| 19) D | 77) A | |
| 20) B | 78) B | |
| 21) C | 79) B | |
| 22) A | 80) E | |
| 23) B | 81) C | |
| 24) A | 82) D | |
| 25) C | 83) E | |
| 26) D | 84) B | |
| 27) A | 85) E | |
| 28) C | 86) A | |
| 29) B | 87) D | |
| 30) E | 88) D | |
| 31) D | 89) C | |
| 32) B | 90) C | |
| 33) E | 91) D | |
| 34) C | 92) A | |
| 35) D | 93) A | |
| 36) B | 94) D | |
| 37) E | 95) E | |
| 38) D | 96) E | |
| 39) A | 97) C | |
| 40) D | 98) A | |
| 41) D | 99) B | |
| 42) A | 100) C | |
| 43) B | 101) B | |
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| 45) D | 103) E | |
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| 49) C | 107) D | |
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| 51) A | 109) A | |
| 52) A | 110) D | |
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