1. Economists use the term *money* to refer to:
   A) income.
   B) profits.
   C) assets used for transactions.
   D) earnings from labor.

2. *All* of the following are considered major functions of money *except* as a:
   A) medium of exchange.
   B) way to display wealth.
   C) unit of account.
   D) store of value.

3. When a pizza maker lists the price of a pizza as $10, this is an example of using money as a:
   A) store of value.
   B) unit of account.
   C) medium of exchange.
   D) flow of value.

4. To make a trade in a barter economy requires:
   A) currency.
   B) a check.
   C) scrip.
   D) a double coincidence of wants.

5. In prisoner of war camps during World War II, the “currency” used was:
   A) chocolates.
   B) cigarettes.
   C) gold.
   D) IOUs.

6. In a country on a gold standard, the quantity of money is determined by the:
   A) government.
   B) central bank.
   C) amount of gold.
   D) buying and selling of government securities.
7. Open-market operations are:
   A) Commerce Department efforts to open foreign markets to international trade.
   B) Federal Reserve purchases and sales of government bonds.
   C) Securities and Exchange Commission rules requiring open disclosure of market trades.
   D) Treasury Department purchases and sales of the U.S. gold stock.

8. Currency equals:
   A) $M_1$.
   B) the sum of funds in checking accounts.
   C) the sum of checking accounts and paper money.
   D) the sum of coins and paper money.

9. All of the following assets are included in $M_1$ except:
   A) currency.
   B) demand deposits.
   C) traveler's checks.
   D) money market deposit accounts.

10. The definition of the transactions velocity of money is:
    A) money multiplied by prices divided by transactions.
    B) transactions divided by prices multiplied by money.
    C) money divided by prices multiplied by transactions.
    D) prices multiplied by transactions divided by money.

11. If there are 100 transactions in a year and the average value of each transaction is $10, then if there is $200 of money in the economy, transactions velocity is ______ times per year.
    A) 0.2
    B) 2
    C) 5
    D) 10

12. If the average price of goods and services in the economy equals $10 and the quantity of money in the economy equals $200,000, then real balances in the economy equal:
    A) 10.
    B) 20,000.
    C) 200,000.
    D) 2,000,000.
13. If the quantity of real money balances is $kY$, where $k$ is a constant, then velocity is:
A) $k$
B) $1/k$
C) $kP$
D) $P/k$

14. Consider the money demand function that takes the form $(M/P)^d = kY$, where $M$ is the quantity of money, $P$ is the price level, and $Y$ is real output. If the money supply is growing at a 10 percent rate, real output is growing at a 3 percent rate, and $k$ is constant, what is the rate of inflation in this country?
A) 3 percent
B) 7 percent
C) 10 percent
D) 13 percent

15. Percentage change in $P$ is approximately equal to the percentage change in:
A) $M$
B) $M$ minus percentage change in $Y$
C) $M$ minus percentage change in $Y$ plus percentage change in velocity.
D) $M$ minus percentage change in $Y$ minus percentage change in velocity.

16. The right of seigniorage is the right to:
A) levy taxes on the public.
B) borrow money from the public.
C) draft citizens into the armed forces.
D) print money.

17. “Inflation tax” means that:
A) as the price level rises, taxpayers are pushed into higher tax brackets.
B) as the price level rises, the real value of money held by the public decreases.
C) as taxes increase, the rate of inflation also increases.
D) in a hyperinflation, the chief source of tax revenue is often the printing of money.

18. If the real interest rate declines by 1 percent and the inflation rate increases by 2 percent, the nominal interest rate must:
A) increase by 2 percent.
B) increase by 1 percent.
C) remain constant.
D) decrease by 1 percent.
19. Evidence from the past 40 years in the United States supports the Fisher effect and shows that when the inflation rate is high, the ______ interest rate tends to be ______.
   A) nominal; high
   B) nominal; low
   C) real; high
   D) real; low

20. Equilibrium in the market for goods and services determines the ______ interest rate and the expected rate of inflation determines the ______ interest rate.
   A) ex ante real; ex ante nominal
   B) ex post real; ex post nominal
   C) ex ante nominal; ex post real
   D) ex post nominal; ex post real

21. The opportunity cost of holding money is the:
   A) nominal interest rate.
   B) real interest rate.
   C) rate of inflation.
   D) prevailing Treasury bill rate.

22. Consider a money demand function that takes the form \((M/P)d = Y/4i\), where \(M\) is the quantity of money, \(P\) is the price level, \(Y\) is real output, and \(i\) is the nominal interest rate. What is the average velocity of money in this economy?
   A) \(i\)
   B) \(4i\)
   C) \(1/4i\)
   D) 0.25

23. According to the classical theory of money, reducing inflation will not make workers richer because firms will increase product prices ______ each year and give workers ______ raises.
   A) more; larger
   B) more; smaller
   C) less; larger
   D) less; smaller

24. Inflation ______ the variability of relative prices and ______ allocative efficiency.
   A) increases; increases
   B) increases; decreases
   C) decreases; decreases
   D) decreases; increases
25. In the case of an unanticipated inflation:
   A) creditors with an unindexed contract are hurt because they get less than they expected in real terms.
   B) creditors with an indexed contract gain because they get more than they contracted for in nominal terms.
   C) debtors with an unindexed contract do not gain because they pay exactly what they contracted for in nominal terms.
   D) debtors with an indexed contract are hurt because they pay more than they contracted for in nominal terms.

26. If inflation is 6 percent and a worker receives a 4 percent wage increase, then the worker's real wage:
   A) increased 4 percent.
   B) increased 2 percent.
   C) decreased 2 percent.
   D) decreased 6 percent.

27. A rate of inflation that exceeds 50 percent per month is typically referred to as a(n):
   A) inflation.
   B) hyperinflation.
   C) deflation.
   D) disinflation.

28. The major source of government revenue in most countries that experience a hyperinflation is:
   A) customs duties.
   B) personal taxes.
   C) seigniorage.
   D) borrowing.

29. In practice, in order to stop a hyperinflation, in addition to stopping monetary growth, the government must:
   A) lower taxes and raise government spending.
   B) raise taxes and reduce government spending.
   C) change from one kind of currency to another.
   D) call for a new election.
30. An example of a nominal variable is the:
   A) money supply.
   B) quantity of goods produced in a year.
   C) relative price of bread.
   D) real wage.
Answer Key

1. C  
2. B  
3. B  
4. D  
5. B  
6. C  
7. B  
8. D  
9. D  
10. D  
11. C  
12. B  
13. B  
14. B  
15. C  
16. D  
17. B  
18. B  
19. A  
20. A  
21. A  
22. B  
23. D  
24. B  
25. A  
26. C  
27. B  
28. C  
29. B  
30. A