Introduction to Finance Markets Investments and Financial Management 17th edition Melicher Test Bank

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CHAPTER 2
Money and the Monetary System

TRUE-FALSE QUESTIONS

1. The Great Recession happened in 2008-2010.

   Answer: F
   Difficulty Level: Easy
   Subject Heading: The 2007–2008 Financial Crisis and Subsequent Recovery
   L.O. 2.1

2 Most economists trace the beginning of the crisis to the bursting of the U.S. stock market bubble in mid-2006.

   Answer: F
   Difficulty Level: Easy
   Subject Heading: The 2007–2008 Financial Crisis and Subsequent Recovery
   L.O. 2.1

3. Mortgage-backed securities have mortgage loan pools as their backing.

   Answer: T
   Difficulty Level: Easy
   Subject Heading: The 2007–2008 Financial Crisis and Subsequent Recovery
   L.O. 2.1

4. The federal government helped out financial institutions during the Great Recession so that none were allowed to fail.

   Answer: F
   Difficulty Level: Medium
   Subject Heading: The 2007–2008 Financial Crisis and Subsequent Recovery
   L.O. 2.1

5. Monetary policy makers can stimulate economic activity through increased monetary liquidity by making more money available (but at higher borrowing costs) to businesses, investors, and others.

   Answer: F
   Difficulty Level: Easy
   Subject Heading: The 2007–2008 Financial Crisis and Subsequent Recovery
   L.O. 2.1

6. The role of financial institutions in a country's financial system is to accumulate and invest savings.

   Answer: T
   Difficulty Level: Easy
   Subject Heading: Process of Moving Savings into Investments
   L.O. 2.2

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7. The role of financial markets in a country's financial system is to accumulate and invest savings.

Answer: F
Difficulty Level: Easy
Subject Heading: Process of Moving Savings into Investments
L.O. 2.2

8. A surplus economic unit generates more money than it spends, and thus it has excess money to save or invest.

Answer: T
Difficulty Level: Easy
Subject Heading: Process of Moving Savings into Investments
L.O. 2.2

9. A deficit economic unit spends more money than it brings in and must balance its money receipts with money expenditures by selling gold and/or silver.

Answer: F
Difficulty Level: Medium
Subject Heading: Process of Moving Savings into Investments
L.O. 2.2

10. The savings-investment process involves the direct or indirect transfer of individual savings to business firms in exchange for goods and services.

Answer: F
Difficulty Level: Medium
Subject Heading: Process of Moving Savings into Investments
L.O. 2.2

11. The use of direct transfers is the more common way by which money is transferred from savers to investors.

Answer: F
Difficulty Level: Medium
Subject Heading: Process of Moving Savings into Investments
L.O. 2.2

12. A major objective of the Fed is to regulate and control the supply of money and the availability of credit.

Answer: T
Difficulty Level: Easy
Subject Heading: Overview of the Monetary Supply
L.O. 2.3

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13. A central bank defines and regulates the amount of the money supply in the financial system.

Answer: T
Difficulty Level: Easy
Subject Heading: Overview of the Monetary Supply
L.O. 2.3

14. The two basic components of the U.S. money supply are physical money and deposit money.

Answer: T
Difficulty Level: Medium
Subject Heading: Development of Money in the United States
L.O. 2.3

15. The monetary system is responsible for carrying out the financial functions of creating and transferring money.

Answer: T
Difficulty Level: Medium
Subject Heading: Overview of the Monetary System
L.O. 2.3

16. Only depository institutions as a group can create money.

Answer: T
Difficulty Level: Medium
Subject Heading: Overview of the Monetary System
L.O. 2.3

17. The banking system creates money.

Answer: T
Difficulty Level: Easy
Subject Heading: Overview of the Monetary System
L.O. 2.3

18. An individual bank can create money.

Answer: F
Difficulty Level: Medium
Subject Heading: Overview of the Monetary System
L.O. 2.3

19. Primitive economies have little occasion to exchange goods or services.

Answer: T
Difficulty Level: Easy
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

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20. Money is anything generally accepted as a means of paying for goods and services and for paying off debts.

Answer: T
Difficulty Level: Easy
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

21. Money is perfectly liquid.

Answer: T
Difficulty Level: Easy
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

22. No other asset is as liquid as money, because money is itself, a medium of exchange.

Answer: T
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

23. Real assets include the direct ownership of land, buildings or homes, equipment, inventories, durable goods, and even precious metals.

Answer: T
Difficulty Level: Easy
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

24. Financial assets are money, debt instruments, equity securities, and other financial contracts that are backed by real assets and the earning abilities of issuers.

Answer: T
Difficulty Level: Easy
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

25. Purchasing power is the amount of gold and silver that can be purchased with a unit of money.

Answer: F
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

26. Purchasing power is increased by inflation.

Answer: F
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

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27. How easily and with little loss of value an asset can be exchanged for money or other assets is called exchangeability.

Answer: F
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

28. Fiat money is a form of credit money.

Answer: T
Difficulty Level: Easy
Subject Heading: Credit Money and Deposit Money
L.O. 2.5

29. Fiat money is legal tender proclaimed to be money by law.

Answer: T
Difficulty Level: Easy
Subject Heading: Development of Money in the United States
L.O. 2.5

30. Physical money includes coin and currency.

Answer: T
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

31. “Continentals” were denominated in dollars and were backed by gold.

Answer: F
Difficulty Level: Easy
Subject Heading: Monetary History
L.O. 2.5

32. The use of “continentals” led to a long period of distrust of paper money.

Answer: T
Difficulty Level: Easy
Subject Heading: Paper Currency
L.O. 2.5

33. Fiat money is paper money fully backed by a precious metal such as gold.

Answer: F
Difficulty Level: Easy
Subject Heading: Credit Money and Deposit Money
L.O. 2.5

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34. Full-bodied money is a monetary standard based on two metals, usually silver and gold.

Answer: F
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

35. Representative full-bodied money is paper money fully backed by a precious metal such as gold.

Answer: T
Difficulty Level: Easy
Subject Heading: Monetary History
L.O. 2.5

36. Representative full-bodied money consists of paper money fully backed by a precious metal.

Answer: T
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

37. Fiat money must be backed by a specific amount of gold or silver.

Answer: F
Difficulty Level: Medium
Subject Heading: Credit Money and Deposit Money
L.O. 2.5

38. Our monetary standard today is the paper dollar, issued by the Federal Reserve, and can be exchanged for gold or silver.

Answer: F
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

39. No full-bodied or representative full-bodied money is in use in the United States today.

Answer: T
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

40. The U.S. dollar was defined in terms of gold until the 1980s.

Answer: F
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

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41. Starting in 1934, U.S. citizens were prohibited from holding monetary gold in the United States.

Answer: T
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

42. Fiat money generally becomes worthless if the issuing government – such as the Confederate government of the Civil War – fails.

Answer: T
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

43. Representative full-bodied money is paper money that is backed by an amount of precious metal equal in value to the face amount of the paper money.

Answer: T
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

44. Demand deposits are issued by commercial banks and savings banks, and do not earn interest.

Answer: F
Difficulty Level: Easy
Subject Heading: Credit Money and Deposit Money
L.O. 2.5

45. Deposit money is backed by the creditworthiness of the depository institution that issued the deposit.

Answer: T
Difficulty Level: Easy
Subject Heading: Credit Money and Deposit Money
L.O. 2.5

46. A monetary standard based on two metals, usually silver and gold, is called a dual-metal standard.

Answer: F
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

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47. Beginning in 1961, U.S. citizens were prohibited from holding monetary gold in the United States or abroad.

Answer: T
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

48. All restrictions on U.S. citizens holding gold in money form were removed by President Obama in 2010.

Answer: F
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

49. Paper money is always fully backed by a precious metal; although, it does not have to be gold or silver.

Answer: F
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

50. Credit money is money backed by the creditworthiness of the United States Government.

Answer: F
Difficulty Level: Medium
Subject Heading: Credit Money and Deposit Money
L.O. 2.5

51. About 30 cities and towns in the United States print their own versions of money.

Answer: T
Difficulty Level: Medium
Subject Heading: Credit Money and Deposit Money
L.O. 2.5

52. Money market securities are debt securities with maturities of one year or more.

Answer: F
Difficulty Level: Easy
Subject Heading: Money Market Securities
L.O. 2.6

53. Treasury bills are money market securities.

Answer: T
Difficulty Level: Easy
Subject Heading: Money Market Securities
L.O. 2.6

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54. Federal funds are money market securities.

Answer: T
Difficulty Level: Easy
Subject Heading: Money Market Securities
L.O. 2.6

55. Commercial paper is short-term promissory notes issued by a high credit-quality corporation using assets of that corporation as security.

Answer: F
Difficulty Level:
Subject Heading: Money Market Securities
L.O. 2.6

56. Banker's acceptances are used to finance international trade.

Answer: T
Difficulty Level: Easy
Subject Heading: Money Market Securities
L.O. 2.6

56. Federal funds are very short-term loans made between depository institutions.

Answer: T
Difficulty Level: Easy
Subject Heading: Money Market Securities
L.O. 2.6

57. A store of purchasing power is the most important function of money.
Answer: F
Difficulty Level: Medium
Subject Heading: M1 Money Supply
L.O. 2.7

58. M1 includes currency and demand deposits but excludes travelers' checks.

Answer: F
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

59. Currency held in vaults of depository institutions is excluded from M1.

Answer: T
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

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60. M1 money supply consists of currency, travelers' checks, demand deposits, and other checkable deposits.

Answer: T
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

61. Because credit card balances and limits can affect the rate of turnover of money supply and contribute to money supply expansion, these balances and limits are included in the M3 definition of money supply.

Answer: F
Difficulty Level: Medium
Subject Heading: Exclusions from the Money Supply
L.O. 2.7

62. Currency is part of the M1 money supply.

Answer: T
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

63. Gold is part of the M1 money supply.

Answer: F
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

64. Traveler's checks are part of the M1 money supply.

Answer: T
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

65. Demand deposits are part of the M1 money supply.

Answer: T
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

66. Silver is part of the M1 money supply.

Answer: T
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

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67. The faster velocity of money, the greater an economy's GDP.

Answer: T
Difficulty Level: Easy
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

68. Even though credit card balances and limits are not included in any definition of money supply, these balances and limits can affect the rate of turnover of money supply and contribute to money supply expansion.

Answer: T
Difficulty Level: Medium
Subject Heading: Exclusions from the Money Supply
L.O. 2.8

69. The faster the rate of circulation of the money supply, the greater the output of goods and services in an economy.

Answer: T
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

70. Most of the financial assets added to the M2 definition of money supply provide their owners with a higher rate of return than do M1 financial assets.

Answer: T
Difficulty Level: Medium
Subject Heading: M2 Money Supply
L.O. 2.8

71. Keynesians believe that when the supply of money exceeds the quantity demanded, the public will spend more rapidly causing inflation.

Answer: F
Difficulty Level: Medium
Subject Heading: Keynesians vs. Monetarists
L.O. 2.8

72. Keynesians believe that a change in the money supply first causes a change in interest rate levels, which, in turn, alters the demand for goods and services.

Answer: T
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

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73. Gross domestic output (GDO) is a measure of the output of goods and services in an economy.

Answer: F
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

74. The velocity of money measures the rate of circulation of checks in the modern economy.

Answer: F
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

74. The velocity of money measures the rate of circulation of online currencies in the modern economy.

Answer: F
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

75. Monetarists also believe that when the money supply exceeds the amount of money demanded, the public will spend more rapidly, causing real economic activity or prices to rise.

Answer: T
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

76. According to the Bretton Woods agreement, one ounce of gold is set equal to US $35, and each participating country pegs its currency to gold or the U.S. dollar.

Answer: T
Difficulty Level: Medium
Subject Heading: International Monetary System
L.O. 2.9

77. Currently, the international monetary system can best be described as a managed floating exchange rate system.

Answer: T
Difficulty Level: Medium
Subject Heading: International Monetary System
L.O. 2.9

78. Currently, the international monetary system can best be described as a managed pegged exchange rate system.

Answer: F
Difficulty Level: Medium

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Subject Heading: International Monetary System
L.O. 2.9

79. A bimetallic standard is a monetary standard based only on gold.

Answer: F
Difficulty Level: Easy
Subject Heading: International Monetary System
L.O. 2.9

80. A bimetallic standard is a monetary standard based on two metals, usually silver and gold.

Answer: T
Difficulty Level: Easy
Subject Heading: International Monetary System
L.O. 2.9

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MULTIPLE-CHOICE QUESTIONS

81. A major factor in the severity of the 2007-09 financial crisis was the massive amounts of debt taken on by:

a. individuals
b. business in Europe
c. governments in South America
d. Asian productivity gains

Answer: a
Difficulty Level: Medium
Subject Heading: Process of Moving Savings into Investments
L.O. 2.2

82. A major factor in the severity of the 2007-09 financial crisis was the massive increase in the level of debt taken on by:

a. individuals under the age of 25
b. businesses in Europe
c. the U.S. government
d. Asian countries

Answer: c
Difficulty Level: Medium
Subject Heading: Process of Moving Savings into Investments
L.O. 2.2

83. Creating and transferring money are integral parts of the:

a. investment process
b. capital formation process
c. savings process
d. treasury process

Answer: b
Difficulty Level: Easy
Subject Heading: Basic Monetary Concepts
L.O. 2.2

84. Historically speaking, _____ taken as a group has/have generally been a surplus economic unit in the past:

a. individuals
b. business
c. government
d. foreigners

Answer: a
Difficulty Level: Easy
Subject Heading: Process of Moving Savings into Investments
L.O. 2.2

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85. The savings-investment process

a. involves the transfer of business funds to individuals for investing in stocks and bonds involves the transfer of business funds to individuals for investing in homes
c. involves the transfer in individual savings to the Federal Government.
d. involves the transfer in individual savings to business firms in exchange for their securities.

Answer: d
Difficulty Level: Medium
Subject Heading: Process of Moving Savings into Investments
L.O. 2.2

86. Which of the following are not depository institutions?

a. The Federal Reserve
b. credit unions
c. savings banks
d. commercial banks

Answer: a
Difficulty Level: Easy
Subject Heading: Overview of the Monetary System
L.O. 2.3

87. _____issue shares to customers and invest the proceeds in highly liquid, very-short-maturity, interest-bearing debt instruments called money market investments.

a. Money market mutual funds (MMMFs)
b. Corporations
c. Insurance companies
d. Stock brokers

Answer: a
Difficulty Level: Easy
Subject Heading: M2 Money Supply
L.O. 2.7

88. Checks may be cleared by:

a. the Federal Reserve
b. savings & loans
c. Credit Unions
d. the Treasury

Answer: a
Difficulty Level: Medium
Subject Heading: Overview of the Monetary System
L.O. 2.3

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89. All of the following are important components of a financial system except:

a. government and private policy makers
b. a monetary system
c. the international monetary fund
d. financial institutions and markets

Answer: c
Difficulty Level: Medium
Subject Heading: Financial System
L.O. 2.5

90. All of the following are normally categorized as financial institutions except

a. S&Ls
b. brokerage firms
c. commercial banks
d. credit unions

Answer: b
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.3

91. _____ include the direct ownership of land, buildings or homes, equipment, inventories, durable goods, and even precious metals.

a. financial assets
b. real assets
c. government investments
d. individual savings

Answer: b
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

92. _____ are money, debt instruments, equity securities, and other financial contracts that are backed by real assets and the earning abilities of issuers.

a. financial assets
b. real assets
c. government investments
d. all of the above

Answer: a
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

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93. When it is a means of paying for goods and services and discharging debts, money is referred to as a

a. store of purchasing power
b. medium of exchange
c. standard of value
d. liquid asset

Answer: b
Difficulty Level: Easy
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

94. Which of the following describes the basic function of money?

a. store of purchasing power
b. standard of value
c. medium of exchange
d. liquidity

Answer: c
Difficulty Level: Easy
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

95. When it is a means of paying for goods and services and discharging debts, money is referred to as a:

a. store of purchasing power
b. medium of exchange
c. standard of value
d. liquid asset

Answer: b
Difficulty Level: Easy
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

96. Barter involves the exchange of:

a. goods for gold
b. goods for silver
c. gold for silver
d. goods and services

Answer: d
Difficulty Level: Easy
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

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97. Paper money backed by a precious metal is called

a. full-bodied money
b. a bimetallic standard
c. representative full-bodied money
d. reserve money

Answer: c
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

98. The function of money that expresses prices and contracts for deferred payments in terms of the monetary unit is referred to as

a. store of purchasing power
b. standard of value
c. medium of exchange
d. credit money

Answer: b
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

99. All money must perform the following basic functions except:

a. guarantee of validity
b. medium of exchange
c. standard of value
d. store of value

Answer: a
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

100. The three functions of money are:

a. medium of exchange, store of value, and measure of liquidity
b. conduit for international trade, store of value, and standard of value
c. medium of exchange, store of value, and standard of value
d. inflation hedge, measure of liquidity, and medium of exchange

Answer: c
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

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101. Functions of money include all of the following except

a. Money serves as a medium of exchange.
b. Money may be held as a store of value.
c. Money serves as a standard of value.
d. All of the above are functions of money.

Answer: d
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

102. Functions of money include all of the following except

a. Money serves as a medium of exchange.
b. Money may be held as a store of value.
c. Money determines the wealth of a nation.
d. The quality of goods and services.

Answer: c
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

103. _____ is anything generally accepted as a means of paying for goods and services and for paying off debts. It must be easily divisible, so that exchanges can take place in small or large quantities; relatively inexpensive to store and transfer; and reasonably stable in value over time.

a. A financial asset
b. A real asset
c. money
d. barter

Answer: c
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

104. _____ is the sum of an individual's money, real assets, and financial assets or claims against others less the individual's debt obligations.

a. Portfolio value
b. Individual net worth
c. Personal wealth
d. Investment value

Answer: b
Difficulty Level: Medium
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

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105. Which of the following statements is false?

a. Money can always function as a store of purchasing power, even if its value is relatively unstable.
b. The ease with which an asset can be exchanged for money or other assets is referred to as liquidity.
c. Credit money is any circulating medium which has little intrinsic value relative to its monetary value.
d. In the future, electronic funds transfer systems may be used to such an extent that a virtually checkless society may result.

Answer: a
Difficulty Level: Hard
Subject Heading: Characteristics and Functions of Money
L.O. 2.4

106. Paper money fully backed by a precious metal and issued by the government is called

a. fiat money
b. representative full-bodied money
c. full-bodied money
d. credit money

Answer: b
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

107. Fiat money is

a. representative full-bodied money
b. full-bodied money
c. legal tender proclaimed to be money by law
d. backed by gold

Answer: c
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

108. The U.S. bimetallic standard was based on:

a. gold and platinum
b. silver and gold
c. gold and copper
d. silver and copper

Answer: b
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

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109. In the U.S., the dollar was defined in terms of gold until the

a. present time
b. 1980s
c. 1970s
d. 1960s

Answer: c
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

110. The only paper money of significance in the economy today is:

a. silver certificates
b. demand deposits
c. greenbacks
d. Federal Reserve notes

Answer: d
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

111. Token coins are

a. full-bodied coins
b. coins containing metal of less value than their stated value
c. coins containing gold or silver
d. representative full-bodied money

Answer: b
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

112. When coins have an intrinsic value equal to the value of the metal they contain, they are referred to as

a. full-bodied money
b. representative full-bodied money
c. token coins
d. fiat coins

Answer: a
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

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113. “Continentals” were backed by

a. gold
b. silver
c. possible future tax revenues
d. none of the above

Answer: c
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

114. A monetary standard based on two metals, usually silver and gold is called

a. full-bodied money
b. a bimetallic standard
c. Fiat money
d. reserve money

Answer: b
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

115. Legal tender proclaimed to be money by law is called

a. representative money
b. fiat money
c. representative full-bodied money
d. bimetallic money

Answer: b
Difficulty Level: Easy
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

116. Fiat money is

a. paper money issued by central banks without full metallic backing
b. government notes representing a specific amount of gold in storage
c. full-bodied money
d. bimetallic money

Answer: a
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

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117. Any circulating money which has little real value relative to its monetary value is called

a. credit money
b. representative full-bodied money
c. full-bodied money
d. reserve money

Answer: a
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

118. Inflation is

a. an increase in the purchasing power of money
b. a decrease in the quality of goods and services
c. an increase in the prices of goods and services not offset by increases in the quality of those goods and services
d. a measure of the money supply

Answer: c
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

119. A breakdown in the international gold standard occurred during

a. the 1880–1914 period
b. World War I
c. World War II
d. the depression of the 1930s

Answer: b
Difficulty Level: Medium
Subject Heading: International Monetary System
L.O. 2.9

120. The advantages claimed for a bimetallic standard were not gained in actual practice because

a. one of the metals disappeared from circulation because the mint and market ratios were not the same
b. the supply of gold was inadequate
c. the supply of silver and gold was not balanced among the nations that were on a bimetallic standard
d. The U.S. went to war

Answer: a
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

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121. Today's Federal Reserve notes are

a. backed by gold
b. backed by silver
c. fiat money
d. full bodied money

Answer: c
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

122. Money decreed to be "legal tender" for the payment of debts is money backed by

a. precious metals
b. commodities
c. government creditworthiness
d. gold or silver

Answer: c
Difficulty Level: Medium
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

123. Which of the following statements is false?

a. Legal tender is money backed only by government credit.
b. Fiat money is backed by government decree.
c. Coins are not legal tender.
d. Federal Reserve notes are legal tender.

Answer: a
Difficulty Level: Hard
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

124. Which of the following statements is false?

a. Until the Civil War, the federal government was the major issuer of paper money.
b. In order for traders in early economies to accept or barter for items, the supply of the item had to be limited in relation to the desire of individual in the economy to have the item.
c. Collectors of old coins and paper money are referred to as numismatists.
d. Money functions as a store of value.

Answer: a
Difficulty Level: Hard
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

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125. _____ are debt instruments or securities with maturities of one year or less and have low default risk and high liquidity.

a. capital market securities
b. money market securities
c. derivative securities
d. treasury bonds

Answer: b
Difficulty Level: Medium
Subject Heading: Money Market Securities
L.O. 2.6

126. A _____ is a short-term debt instrument issued by commercial banks in denominations of $100,000 or more with typical maturities ranging from one month to one year that have an active secondary market that allows short-term investors to easily match their cash or liquidity needs when they arise.

a. negotiable certificate of deposit (NCD)
b. A repurchase agreement
c. government bond
d. money market security

Answer: a
Difficulty Level: Medium
Subject Heading: Money Market Securities
L.O. 2.6

127. _____ is a short-term debt instrument issued by commercial banks in denominations of $100,000 or more with typical maturities ranging from one month to one year that have an active secondary market that allows short-term investors to easily match their cash or liquidity needs when they arise.

a. A negotiable certificate of deposit (NCD)
b. A repurchase agreement
c. Commercial paper
d. Government bond

Answer: a
Difficulty Level: Medium
Subject Heading: Money Market Securities
L.O. 2.6

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128. _____ is a short-term unsecured promissory note issued by a high credit–quality corporation with maturities of one to three months in length with an active secondary money.

a. A negotiable certificate of deposit (NCD)
b. A repurchase agreement
c. Commercial paper
d. Government bond

Answer: c
Difficulty Level: Medium
Subject Heading: Money Market Securities
L.O. 2.6

129. _____ is a promise of future payment issued by a firm and guaranteed by a bank that is used to finance international trade with typical maturities ranging from one to six months.

a. A negotiable certificate of deposit (NCD)
b. A repurchase agreement
c. Commercial paper
d. A banker's acceptance

Answer: d
Difficulty Level: Medium
Subject Heading: Money Market Securities
L.O. 2.6

130. _____ is a short-term debt security sold by a business firm or financial institution to another business or institution where the seller agrees to buy back the security at a specified price and date.

a. A negotiable certificate of deposit (NCD)
b. A repurchase agreement
c. Commercial paper
d. A banker's acceptance

Answer: b
Difficulty Level: Medium
Subject Heading: Money Market Securities
L.O. 2.6

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131. _____ are very short-term loans, usually with maturities of one day to one week made between depository institutions.

a. Overnight loans
b. Commercial paper
c. Federal funds
d. A banker's acceptance

Answer: c
Difficulty Level: Medium
Subject Heading: Money Market Securities
L.O. 2.6

132. Which of the following would not be considered liquid?

a. money in savings accounts
b. coins
c. currency
d. all the above are liquid

Answer: d
Difficulty Level: Easy
Subject Heading: M2 Money Supply
L.O. 2.7

133. Money market funds are not included in which of the following definitions of the money supply?

a. M1
b. M2
c. M3
d. M4

Answer: a
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

134. Savings accounts are included in which of the following money supply definitions?

a. M0
b. M1
c. M2
d. Mx

Answer: c
Difficulty Level: Easy
Subject Heading: M2 Money Supply
L.O. 2.7

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135. Overnight repurchase agreements are not included in which of the following definition of the money supply?

a. M1
b. M2
c. M3
d. M4

Answer: a
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

136. Overnight repurchase agreements are not included in which of the following definition of the money supply?

a. M1
b. M2
c. M3
d. M4

Answer: a
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

137. Money market funds are not included in which of the following definitions of the money supply?

a. M1
b. M2
c. M3
d. M4

Answer: a
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

138. Which is included in definitions of the M2 money supply?

a. outstanding balances on credit cards
b. credit card limits
c. Federal Reserve notes
d. gold

Answer: c
Difficulty Level: Easy
Subject Heading: M2 Money Supply
L.O. 2.7

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139. Credit money is backed by:

a. gold
b. silver
c. creditworthiness of the issuer
d. creditworthiness of the depository institution

Answer: c
Difficulty Level: Easy
Subject Heading: Credit Money and Deposit Money
L.O. 2.5

140. Deposit money is backed by:

a. gold
b. silver
c. creditworthiness of the issuer
d. creditworthiness of the depository institution

Answer: d
Difficulty Level: Easy
Subject Heading: Credit Money and Deposit Money
L.O. 2.7

141. _____ provide predetermined credit limits to consumers at the time the cards are issued.

a. debit cards
b. ATM cards
c. credit cards
d. transfer cards

Answer: c
Difficulty Level: Easy
Subject Heading: Exclusions from the Money Supply
L.O. 2.7

142. Credit card usage:

a. may expand money supply
b. may contract the money supply
c. neither expands nor contracts money supply
d. isn't considered by economists in the economic activity

Answer: a
Difficulty Level: Easy
Subject Heading: Exclusions from the Money Supply
L.O. 2.7

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143. The narrowest definition of money supply is:

a. M1
b. M2
c. M3
d. M4

Answer: a
Difficulty Level: Easy
Subject Heading: M1 Money Supply
L.O. 2.7

144. Which of the following statements are correct?

a. debit cards provide for the immediate direct transfer of deposit accounts
b. debit cards may be used for cash advances, even when there is not sufficient money in the account
c. debit cards may not be used to make cash withdrawals from automatic teller machines
d. all the above

Answer: a
Difficulty Level: Medium
Subject Heading: Credit Money and Deposit Money
L.O. 2.5

145. The M1 definition of the money supply includes which of the following items?

a. silver and gold bars
b. government bonds
c. gold reserves
d. travelers' checks

Answer: d
Difficulty Level: Medium
Subject Heading: M1 Money Supply
L.O. 2.7

146. Credit money includes:

a. checking accounts at commercial banks
b. checkable deposits at savings and loan associations
c. checking accounts at credit unions
d. all the above

Answer: b
Difficulty Level: Medium
Subject Heading: Credit Money and Deposit Money
L.O. 2.5

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147. Which of the following are not included in M1?

a. negotiable orders of withdrawal
b. automatic transfer service accounts
c. money market deposit accounts
d. credit union share draft accounts

Answer: c
Difficulty Level: Medium
Subject Heading: M1 Money Supply
L.O. 2.7

148. Which of the following is not a component of the M1 definition of the money supply?

a. travelers' checks
b. savings and small time deposits at depository institutions
c. currency held by the non-bank public
d. demand deposits at depository institutions

Answer: b
Difficulty Level: Medium
Subject Heading: M1 Money Supply
L.O. 2.7

149. Which of the following statements is most correct?

a. Both gold and silver have now been completely removed from any monetary role in the U.S. economy.
b. Savings deposits and small time deposits at depository institutions constitute part of the M1 money supply definition.
c. Fiat money is gold coins issued by central banks under authority of the government.
d. The monetary system of the United States today is based on a dollar standard, and the dollar can be converted into gold.

Answer: a
Difficulty Level: Hard
Subject Heading: Physical Money (Coin and Paper Currency)
L.O. 2.5

150. A measure of the output of goods and services in an economy is called:

a. output
b. money supply
c. gross domestic product
d. velocity

Answer: c
Difficulty Level: Easy
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

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151. A rise in prices not offset by increases in quality is called:

a. deflation
b. inflation
c. stagflation
d. recession

Answer: b
Difficulty Level: Easy
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

152. A rise in prices that is fully offset by increases in quality is called

a. deflation
b. inflation
c. stagflation
d. none of the above

Answer: d
Difficulty Level: Easy
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

153. If the money supply for an economy is $3 trillion and the velocity of money is 4.5, then GDP is:

a. $0.67 trillion
b. $1.5 trillion
c. $7.5 trillion
d. $13.5 trillion

Answer: d
4.5 x $3 trillion = $13.5 trillion
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

154. If the money supply for an economy is $3 trillion and GDP is $10 trillion, then the velocity of money is:

a. $3.33 trillion
b. $13.0 trillion
c. $7.0 trillion
d. $30 trillion

Answer: a
$10 trillion / $3 trillion = $3.33 trillion
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

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155. _____ accounts are increasingly used to make direct deposits to, and payments from, checkable deposit accounts.

a. single balance
b. money market
c. automatic transfer service (ATS)
d. capital market

Answer: c
Difficulty Level: Medium
Subject Heading: Credit Money and Deposit Money
L.O. 2.5

156. The velocity of money measures the rate of circulation of the money supply and can be expressed by the following equation (note: GDP = gross domestic product and MS = money supply):

a. VM = GDP/MS
b. VM = MS/GDP
c. VM = MS x GDP
d. all of the above

Answer: a
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

157. If annual GDP is $100 billion and the MS is $20 billion, the velocity of money (VM) is _____.

a. 2
b. 5
c. 20
d. 50

Answer: b
$100 billion / $20 billion = 5
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

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158. _____ believe that when the money supply exceeds the amount of money demanded, the public will spend more rapidly, causing real economic activity or prices to rise. They also believe that a too-rapid rate of growth in the money supply will ultimately result in rising prices or inflation because excess money will be used to bid up the prices of existing goods.

a. Monetarists
b. Keynesians
c. Neo Classicalists
d. Walraisians

Answer: a
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

159. _____ believe that a change in the money supply first causes a change in interest rate levels, which, in turn, alters the demand for goods and services.

a. Monetarists
b. Keynesians
c. Neo Classicalists
d. Walraisians

Answer: b
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

160. The price level of goods and services may be expressed as the ratio of _____.

a. GDP to real output
b. real output to GDP
c. Velocity to GDP
d. real output to velocity

Answer: a
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

161. Real output in an economy may be expressed as the ratio of _____.

a. GDP to real output
b. real output to GDP
c. price level to GDP
d. GDP to price level

Answer: d
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

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162. The price level of goods and services may be expressed as the ratio of _____.

a. GDP to GNP
b. real output to GDP
c. Velocity to GDP
d. real output to velocity

Answer: d
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

163. _____ believe that a change in the money supply first causes a change in interest rate levels, which, in turn, alters the demand for goods and services.

a. Monetarists
b. Supply Siders
c. Neo Classicalists
d. Keynesians

Answer: a
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

164. An international gold standard dominated international trade during:

a. World War II
b. 1880–1914
c. 1944–1971
d. 1914–1932

Answer: b
Difficulty Level: Easy
Subject Heading: International Monetary System
L.O. 2.9

165. A major international development occurred on January 1, 2002, when twelve European countries gave up their individual currencies and adopted a unified currency called the _____.

a. Dollar
b. Pound
c. euro
d. Franc

Answer: c
Difficulty Level: Easy
Subject Heading: International Monetary System
L.O. 2.9

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166. The supply of a currency in international markets depends largely on the:

a. Federal Reserve System
b. imports of the issuing country
c. amount of exports that currency will buy from the issuing country
d. confidence of market participants in the restraint and ability of the monetary authority issuing the currency

Answer: b
Difficulty Level: Medium
Subject Heading: International Monetary System
L.O. 2.9

167. The velocity of money measures:

a. the quantity of money in an economy
b. the rate of circulation of the money supply
c. the level of inflation caused by the money supply
d. none of the above

Answer: b
Difficulty Level: Medium
Subject Heading: Money Supply and Economic Activity
L.O. 2.8

168. Which of the following statements is false?

a. The Bretton Wood System of fixed exchange rates was maintained until 1975.
b. Under the Bretton Wood System, one ounce of gold was set equal to $35.
c. Under the Bretton Wood System, each participating country had it currency pegged to either gold or the U.S. dollar.
d. Bretton Woods set fixed exchange rates based on a fixed gold price.

Answer: a
Difficulty Level: Hard
Subject Heading: International Monetary System
L.O. 2.9

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