

**Instructions:**

33 multiple-choice questions, each with 4 responses

Students need to bring: (1) Sanddollar ID card; (2) scantron Form 882-E; (3) pencil; (4) calculator (optional)

**Chapter 29**

- ✓ Definition of money
- ✓ Functions of money
- ✓ Commodity vs fiat money
- ✓ Liquidity
- ✓ Monetary aggregates
- ✓ Central banking
- ✓ The Federal Reserve, its structure, the Board of Governors and the FOMC
- ✓ Reserves
- ✓ Fractional reserve banking
- ✓ Money multiplier
- ✓ Financial crisis of 2008-09
- ✓ 3 tools of monetary policy
- ✓ Problems with tools
- ✓ Bank runs
- ✓ Fed funds rate vs discount rate

**Chapter 30**

- ✓ General definition of inflation
- ✓ Disinflation, deflation and hyperinflation
- ✓ Classical theory of money
- ✓ Demand and supply of money
- ✓ Classical dichotomy
- ✓ Quantity theory of money
- ✓ Equation of exchange
- ✓ Monetary neutrality
- ✓ Evidence for quantity theory – hyperinflation episodes
- ✓ Inflation tax
- ✓ Fisher effect/hypothesis
- ✓ Costs of inflation – shoeleather, menu, higher variability
- ✓ Tax distortions
- ✓ Anticipated vs unanticipated money supply increase effects
- ✓ Deflation
- ✓ Wizard of Oz

**Chapter 31**

- ✓ Trade balance and what determines it
- ✓ Net capital outflow and what determines it
- ✓ Relation between trade balance and net capital outflow
- ✓ Simple national income algebra to evaluate saving, investment and the trade balance
- ✓ US external balance history
- ✓ Nominal exchange rates – appreciation and depreciation
- ✓ Real exchange rates
- ✓ PPP and its limitations
- ✓ Big mac standard

### Test 3 Examples

#### Multiple Choice

*Indicate the answer choice that best completes the statement or answers the question.*

1. Economists use the term “money” to refer to
  - a. those types of wealth that are regularly accepted by sellers in exchange for goods and services.
  - b. all wealth.
  - c. all assets, including real assets and financial assets.
  - d. all financial assets, but not real assets.
2. Which of the following best illustrates the unit of account function of money?
  - a. You hold currency even though you don’t intend to spend it right away.
  - b. You list prices for candy sold on your Web site, [www.sweettooth.com](http://www.sweettooth.com), in dollars.
  - c. You pay for your theater tickets with dollars.
  - d. None of the above is correct.
3. Which of the following is included in both M1 and M2?
  - a. money market mutual funds
  - b. savings deposits
  - c. demand deposits
  - d. small time deposits
4. The Board of Governors
  - a. is chaired by the U.S. Secretary of the Treasury.
  - b. members are elected by the U.S. public.
  - c. has 7 members.
  - d. All of the above are correct.
5. If the reserve requirement is 12 percent and banks desire to hold no excess reserves, when a bank receives a new deposit of \$1,000,
  - a. it must increase its required reserves by more than \$150.
  - b. its total reserves initially increase by \$120.
  - c. it will be able to make new loans up to a maximum of \$880.
  - d. None of the above is correct.
6. When prices are falling, economists say that there is
  - a. disinflation.
  - b. deflation.
  - c. a contraction.
  - d. an inverted inflation.
7. According to the classical dichotomy, which of the following is *not* influenced by monetary factors?
  - a. real wages.
  - b. real interest rates.
  - c. real GDP.
  - d. All of the above are correct.

8. If U.S. exports are \$300 billion and U.S. imports total \$350 billion, which of the following is correct?
- a. The U.S. has a trade deficit of \$50 billion.
  - b. The U.S. has a trade surplus of \$50 billion.
  - c. The U.S. has a trade deficit of \$350 billion.
  - d. The U.S. has a trade surplus of \$350 billion.
9. A country has net capital outflow of -10 billion euros and domestic investment of 20 billion euros. What is its national saving?
- a. 10 billion euros
  - b. -10 billion euros
  - c. -30 billion euros
  - d. 30 billion euros
10. Carl and Carly are American residents. Carl buys stock of a corporation in Austria. Carly opens a coffee shop in Austria. Whose purchase, by itself, decreases Austria's net capital outflow?
- a. both Carl's and Carly's
  - b. Carly's
  - c. Carl's
  - d. neither Carl's nor Carly's
11. Which of the following is an example of U.S. foreign portfolio investment?
- a. Larry, a citizen of Ireland, opens a fish and chips restaurant in the United States.
  - b. Albert, a German citizen, buys stock in a U.S. computer company.
  - c. Dustin, a U.S. citizen, opens a country-western tavern in New Zealand.
  - d. Nancy, a U.S. citizen, buys bonds issued by a Japanese bank.
12. The nominal exchange rate is 2 Barbados dollars per U.S. dollar. If the price of a good in Barbados is 3 Barbados dollars and the price in the U.S. is 2 U.S. dollars, what is the real exchange rate to the nearest 100th?
- a. 1.33 Barbados goods per U.S. good
  - b. 3 Barbados goods per U.S. good
  - c. .75 Barbados goods per U.S. good
  - d. none of the above is correct

**Answer Key**

1. a

2. b

3. c

4. c

5. c

6. b

7. d

8. a

9. a

10. a

11. d

12. a