Chapter 3
What Is Money?

■ Multiple Choice

1) There is no single precise measure of money or the money supply for economists because
   - (a) the government considers money supply statistics to be confidential and refuses to publish them.
   - (b) deciding what is generally accepted in payment for goods and services or in the repayment of debt is difficult to determine.
   - (c) economists cannot agree if currency should be considered money.
   - (d) of each of the above.
   - (e) of both (a) and (b) of the above.

   Answer: B
   Question Status: Previous Edition

2) Economists find no completely satisfactory way to measure money because
   - (a) money supply statistics are a state secret.
   - (b) the Federal Reserve does not employ or report different measures of the money supply.
   - (c) the "moneyness" or liquidity of an asset is a matter of degree.
   - (d) economists find disagreement interesting and refuse to agree for ideological reasons.

   Answer: C
   Question Status: Previous Edition

3) Currency includes
   - (a) paper money and coins.
   - (b) paper money, coins, and checks.
   - (c) paper money and checks.
   - (d) paper money, coins, checks, and savings deposits.

   Answer: A
   Question Status: Previous Edition

4) The difference between money and income is that
   - (a) money is a flow and income is a stock.
   - (b) money is a stock and income is a flow.
   - (c) there is no difference—money and income are both stocks.
   - (d) there is no difference—money and income are both flows.

   Answer: B
   Question Status: Previous Edition

5)   It is true that

   (a) income and wealth are both stocks.

   (b) money and income are both stocks.

   (c) income is a flow and wealth is a stock.

   (d) money and wealth are both flows.

   (e) money and income are both flows.

   Answer: C

   Question Status: New

6)   When people say, "Bill Gates sure is rich, he has a lot of money," they probably mean that Bill Gates

   (a) has a large checking account balance.

   (b) is quite wealthy.

   (c) has a relatively high income.

   (d) all of the above.

   (e) only (a) and (b) of the above.

   Answer: D

   Question Status: Previous Edition

7)   An individual's annual salary is her

   (a) money.

   (b) income.

   (c) wealth.

   (d) liabilities.

   (e) assets.

   Answer: B

   Question Status: New

8)   A person's house is part of her

   (a) money.

   (b) income.

   (c) liabilities.

   (d) wealth.

   (e) all of the above.

   Answer: D

   Question Status: New

9)   A person's checking deposits are part of her

   (a) money.

   (b) income.

   (c) wealth.

   (d) all of the above.

   (e) only (a) and (c) of the above.

   Answer: E

   Question Status: New

10) A penny collection is
   (a) money.
   (b) income.
   (c) wealth.
   (d) all of the above.
   (e) only (a) and (c) of the above.

   Answer: E
   Question Status: New

11) Money is
   (a) anything that is generally accepted in payment for goods and services or in the repayment of debt.
   (b) frequently—but incorrectly—used synonymously with wealth.
   (c) paper money, coins, and checks.
   (d) all of the above.
   (e) only (a) and (c) of the above.

   Answer: D
   Question Status: Revised

12) Money is
   (a) anything that is generally accepted in payment for goods and services or in the repayment of debt.
   (b) frequently—but incorrectly—used synonymously with wealth.
   (c) a flow of earnings per unit of time.
   (d) all of the above.
   (e) only (a) and (b) of the above.

   Answer: E
   Question Status: Previous Edition

13) Which of the following are true statements?
   (a) Wealth is the total collection of pieces of property that are a store of value.
   (b) Money is frequently confused with income.
   (c) Income is a flow of earnings per unit of time.
   (d) All of the above are true.
   (e) Only (a) and (b) of the above are true.

   Answer: D
   Question Status: Previous Edition

14) Which of the following are true statements?
   (a) Wealth is the total collection of pieces of property that are a store of value.
   (b) Money is a stock; it is a certain amount at a given point in time.
   (c) Income is a flow of earnings per unit of time.
   (d) All of the above are true.
   (e) Only (a) and (b) of the above are true.

   Answer: D
   Question Status: Previous Edition

15)   Which of the following are true statements?

(a) Wealth is the total collection of pieces of property that are a store of value.

(b) Money is a flow variable.

(c) Income is a stock variable.

(d) All of the above are true.

Answer: A
Question Status: Previous Edition

16)   Of money's three functions, the one that distinguishes money from other assets is its function as a

(a) store of value.

(b) unit of account.

(c) standard of deferred payment.

(d) medium of exchange.

Answer: D
Question Status: Previous Edition

17)   Some of the forms money has taken throughout history include

(a) tobacco.

(b) cigarettes.

(c) wampum.

(d) all of the above.

Answer: D
Question Status: Revised

18)   If peanuts serve as a medium of exchange, a unit of account, and a store of value, then peanuts are

(a) bank deposits.

(b) reserves.

(c) money.

(d) loanable funds.

(e) all of the above.

Answer: C
Study Guide

19)   When an economist states that barter is impossible, she doesn't really mean that barter is impossible. Her real meaning is that

(a) barter transactions are relatively costly.

(b) barter has no useful place in today's world.

(c) it is impossible for barter transactions to leave parties to an exchange better off.

(d) barter is illegal.

(e) each of the above is true.

Answer: A
Question Status: Study Guide

20)   A problem with barter exchange is that barter requires
    (a) a double coincidence of wants.
    (b) specialization.
    (c) standardization.
    (d) mutual respect.
    (e) a common denominator to determine prices.

Answer: A
Question Status: New

21)   The problem of the double coincidence of wants can be avoided if
    (a) trade is organized in a central market.
    (b) money is used to facilitate exchanges.
    (c) barter trades are encouraged.
    (d) both (a) and (b) of the above.

Answer: B
Question Status: Previous Edition

22)   The conversion of a barter economy to one that uses money increases efficiency by reducing
    (a) the need to exchange goods.
    (b) the need to specialize.
    (c) the need to employ team production methods.
    (d) transactions costs.

Answer: D
Question Status: Previous Edition

23)   The conversion of a barter economy to one that uses money
    (a) increases efficiency by reducing the need to exchange goods and services.
    (b) increases efficiency by reducing the need to specialize.
    (c) increases efficiency by reducing transactions costs.
    (d) does not increase economic efficiency.

Answer: C
Question Status: Previous Edition

24)   Which of the following are true statements?
    (a) The conversion of a barter economy to one that uses money increases efficiency by reducing the cost of exchange.
    (b) The conversion of a barter economy to one that uses money increases efficiency by reducing the cost to those who wish to specialize.
    (c) The conversion of a barter economy to one that uses money increases efficiency by reducing transactions costs.
    (d) All of the above are true.
    (e) Only (a) and (c) of the above are true.

Answer: D
Question Status: Previous Edition

25)   Which of the following are true statements?

(a)   The conversion of a barter economy to one that uses money increases efficiency by increasing the cost of exchange.

(b)   The conversion of a barter economy to one that uses money increases efficiency by increasing the cost to those who wish to specialize.

(c)   The conversion of a barter economy to one that uses money increases efficiency by reducing transactions costs.

(d)   All of the above are true.

Answer: C
Question Status: Previous Edition

26)   Which of the following are true statements?

(a)   The conversion of a barter economy to one that uses money increases efficiency by increasing the cost of exchange.

(b)   The conversion of a barter economy to one that uses money increases efficiency by reducing the cost to those who wish to specialize.

(c)   The conversion of a barter economy to one that uses money does not increase economic efficiency.

(d)   All of the above are true.

Answer: B
Question Status: Previous Edition

27)   When compared to exchange systems that rely on money, disadvantages of the barter system include:

(a)   the requirement of a double coincidence of wants.

(b)   increasing the cost of exchanging goods over time.

(c)   raising the cost of exchange to those who would specialize.

(d)   all of the above.

Answer: D
Question Status: Previous Edition

28)   When compared to exchange systems that rely on money, disadvantages of the barter system include:

(a)   the requirement of a double coincidence of wants.

(b)   lowering the cost of exchanging goods over time.

(c)   lowering the cost of exchange to those who would specialize.

(d)   all of the above.

Answer: A
Question Status: Previous Edition

29)   Because it is a medium of exchange, money
   (a) eliminates the requirement for a double coincidence of wants.
   (b) encourages specialization.
   (c) reduces transaction costs.
   (d) does all of the above.
   (e) does only (a) and (b) of the above.
   Answer: D
   Question Status: Previous Edition

30)   Because it is a medium of exchange, money
   (a) encourages specialization and the division of labor.
   (b) reduces transaction costs.
   (c) is not allowed to earn interest.
   (d) does all of the above.
   (e) does only (a) and (b) of the above.
   Answer: E
   Question Status: Previous Edition

31)   Because it is a medium of exchange, money
   (a) discourages specialization and the division of labor.
   (b) reduces transaction costs.
   (c) is not allowed to earn interest.
   (d) does only (b) and (c) of the above.
   Answer: B
   Question Status: Previous Edition

32)   Because it is a medium of exchange, money
   (a) does not earn interest.
   (b) eliminates the requirement for a double coincidence of wants.
   (c) must be currency.
   (d) cannot be a durable asset.
   Answer: B
   Question Status: Previous Edition

33)   When economists say that money promotes efficiency, they mean that money
   (a) reduces transactions costs.
   (b) encourages specialization and the division of labor.
   (c) is inexpensive to produce.
   (d) does both (a) and (b) of the above.
   Answer: D
   Question Status: Previous Edition

34) When economists say that money promotes efficiency, they mean that money
   (a) increases transactions costs.
   (b) encourages specialization and the division of labor.
   (c) is inexpensive to produce.
   (d) does both (b) and (c) of the above.

   Answer: B
   Question Status: Previous Edition

35) Which of the following statements best explains how the use of money in an economy increases economic efficiency?
   (a) Money increases economic efficiency because it is costless to produce.
   (b) Money increases economic efficiency because it encourages specialization.
   (c) Money increases economic efficiency because it increases transactions costs.
   (d) Money cannot have an effect on economic efficiency.

   Answer: B
   Question Status: Previous Edition

36) Which of the following are true statements?
   (a) Money lowers the costs spent trying to exchange goods and services.
   (b) Because money lowers transaction costs, it promotes economic efficiency.
   (c) Income is a stock variable.
   (d) All of the above are true.
   (e) Only (a) and (b) of the above are true.

   Answer: E
   Question Status: Previous Edition

37) For a commodity to function effectively as money it must be
   (a) easily standardized, making it easy to ascertain its value.
   (b) widely accepted.
   (c) divisible into relatively small units.
   (d) all of the above.
   (e) only (a) and (b) of the above.

   Answer: D
   Question Status: Previous Edition

38) For a commodity to function effectively as money it must be
   (a) easily standardized, making it easy to ascertain its value.
   (b) widely accepted.
   (c) deteriorate quickly so that its supply does not become to large.
   (d) all of the above.
   (e) only (a) and (b) of the above.

   Answer: E
   Question Status: Previous Edition

39) If it is generally acceptable as a medium of exchange then it
    (a) must be a commodity.
    (b) must be a precious metal such as gold or silver.
    (c) is money.
    (d) all of the above.

    Answer: C
    Question Status: Previous Edition

40) All but the most primitive societies use money as a medium of exchange, implying that
    (a) the use of money is economically efficient.
    (b) barter exchange is economically inefficient.
    (c) barter exchange cannot work outside the family.
    (d) all of the above.
    (e) only (a) and (b) of the above.

    Answer: E
    Question Status: Previous Edition

41) Whatever a society uses as money, the distinguishing characteristic is that
    (a) it must be completely inflation proof.
    (b) it must be generally acceptable as payment for goods and services or in the repayment of debt.
    (c) it must contain gold.
    (d) it must be produced by the government.

    Answer: B
    Question Status: Previous Edition

42) Although it can have a number of characteristics and serves more than one role, money must
    (a) be backed in gold.
    (b) have a nonmonetary value.
    (c) be generally acceptable.
    (d) be inexpensive to produce.

    Answer: C
    Question Status: Previous Edition

43) Although it can have a number of characteristics and serves more than one role, money must
    (a) be inexpensive to produce.
    (b) be generally acceptable.
    (c) have a nonmonetary value.
    (d) be both (a) and (b) of the above.
    (e) be both (a) and (c) of the above.

    Answer: B
    Question Status: Previous Edition

44) The resources used finding buyers or sellers and negotiating price and other terms are called
   (a) pecuniary costs.
   (b) barter costs.
   (c) transactions costs.
   (d) information costs.
   (e) enforcement costs.

   Answer: C
   Question Status: Study Guide

45) Although money facilitates exchange, exchange is still costly. The costs of exchange are called
   (a) medium-of-exchange costs.
   (b) transaction costs.
   (c) liquidity costs.
   (d) barter costs.

   Answer: B
   Question Status: Previous Edition

46) The time and resources spent trying to exchange goods and services are called
   (a) bargaining costs.
   (b) transaction costs.
   (c) contracting costs.
   (d) barter costs.

   Answer: B
   Question Status: Previous Edition

47) Economists say that money is productive because it reduces
   (a) medium-of-exchange costs.
   (b) transaction costs.
   (c) liquidity costs.
   (d) barter costs.

   Answer: B
   Question Status: Previous Edition

48) Compared to an economy that uses a medium of exchange, in a barter economy
   (a) transaction costs are higher.
   (b) transaction costs are lower.
   (c) liquidity costs are higher.
   (d) liquidity costs are lower.

   Answer: A
   Question Status: Previous Edition

49)   Money reduces transactions costs, allowing people to specialize in what they do best. Money, therefore, promotes

(a) greed and avarice.

(b) efficiency.

(c) the division of labor.

(d) only (a) and (b) of the above.

(e) only (b) and (c) of the above.

Answer: E

Question Status: Previous Edition

50)   Money reduces transaction costs, allowing people to specialize in what they do best. Money, therefore, promotes

(a) greed and avarice.

(b) inefficiency.

(c) the division of labor.

(d) competition.

Answer: C

Question Status: Previous Edition

51)   Because money reduces transaction costs, it

(a) promotes efficiency.

(b) promotes the division of labor.

(c) favors production over exchange.

(d) does all of the above.

(e) does only (a) and (b) of the above.

Answer: E

Question Status: Previous Edition

52)   Because money reduces transaction costs, it

(a) promotes inefficiency by encouraging too many exchanges.

(b) promotes the division of labor.

(c) favors productive activities over exchange activities.

(d) does only (b) and (c) of the above.

Answer: B

Question Status: Previous Edition

53)   Money reduces transaction costs, allowing people to specialize in what they do best. Money, therefore,

(a) encourages greed and avarice.

(b) improves economic efficiency.

(c) frustrates exchange.

(d) only (a) and (b) of the above.

(e) only (b) and (c) of the above.

Answer: B

Question Status: Previous Edition

54) Money reduces transaction costs, allowing people to specialize in what they do best. Money, therefore,

(a) decreases specialization.

(b) improves economic efficiency.

(c) frustrates exchange.

(d) only (a) and (b) of the above.

Answer: B
Question Status: Previous Edition

55) Because money reduces transaction costs, it

(a) encourages greed and avarice.

(b) improves economic efficiency.

(c) encourages specialization and exchange.

(d) does only (a) and (b) of the above.

(e) does only (b) and (c) of the above.

Answer: E
Question Status: Previous Edition

56) One can be confident that money must promote efficiency because

(a) almost every society except the most primitive uses it.

(b) people generally prefer using it in exchanges.

(c) both (a) and (b) of the above.

(d) neither (a) nor (b) of the above.

Answer: C
Question Status: Previous Edition

57) When money prices are used to facilitate comparisons of value, money is said to function as a

(a) unit of account.

(b) medium of exchange.

(c) store of value.

(d) payments-system ruler.

Answer: A
Question Status: Previous Edition

58) Because it is a unit of account, money

(a) reduces transaction costs.

(b) reduces the number of prices that need to be calculated.

(c) does not earn interest.

(d) does all of the above.

(e) does only (a) and (b) of the above.

Answer: E
Question Status: Previous Edition

59) Because it is a unit of account, money
   (a) increases transaction costs.
   (b) reduces the number of prices that need to be calculated.
   (c) does not earn interest.
   (d) does all of the above.

   Answer: B
   Question Status: Previous Edition

60) A problem with barter exchange when there are many goods is that in a barter system
   (a) transactions costs are minimized.
   (b) there exists a multiple number of prices for each good.
   (c) everyone is overspecialized.
   (d) exchange of services is impossible.
   (e) there is only one store of value.

   Answer: B
   Question Status: New

61) In a barter economy the number of prices in an economy with N goods is
   (a) [N(N − 1)]/2.
   (b) N(N/2).
   (c) 2N.
   (d) N(N/2) − 1.

   Answer: A
   Question Status: Previous Edition

62) If there are five goods in a barter economy, one needs to know ten prices in order to exchange one good for another. If, however, there are ten goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.
   (a) 20
   (b) 25
   (c) 30
   (d) 45

   Answer: D
   Question Status: Previous Edition

63) If there are three goods in a barter economy, one needs to know three prices in order to exchange one good for another. If, however, there are ten goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.
   (a) 10
   (b) 15
   (c) 30
   (d) 45

   Answer: D
   Question Status: Previous Edition

64)   If there are five goods in a barter economy, one needs to know ten prices in order to exchange one good for another. If, however, there are four goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.
(a) 4
(b) 5
(c) 6
(d) 8
Answer: C
Question Status: Previous Edition

65)   If there are four goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.
(a) 8
(b) 6
(c) 5
(d) 4
Answer: B
Question Status: Previous Edition

66)   If there are five goods in a barter economy, one needs to know ten prices in order to exchange one good for another. If, however, there are six goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.
(a) 6
(b) 9
(c) 12
(d) 15
Answer: D
Question Status: Previous Edition

67)   If there are three goods in a barter economy, one needs to know three prices in order to exchange one good for another. If, however, there are six goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.
(a) 15
(b) 12
(c) 9
(d) 6
Answer: A
Question Status: Previous Edition

68)   If there are four goods in a barter economy, one needs to know six prices in order to exchange one good for another. If, however, there are five goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.
(a) 8
(b) 9
(c) 10
(d) 12

Answer: C
Question Status: Previous Edition

69)   If there are three goods in a barter economy, one needs to know three prices in order to exchange one good for another. If, however, there are five goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.
(a) 5
(b) 6
(c) 8
(d) 10

Answer: D
Question Status: Previous Edition

70)   Which of the following assets can serve as a store of value?
(a) Money
(b) Stocks and bonds
(c) Houses
(d) All of the above

Answer: D
Question Status: Previous Edition

71)   Because it is a store of value, money
(a) does not earn interest.
(b) cannot be a durable asset.
(c) must be currency.
(d) is none of the above.

Answer: D
Question Status: Previous Edition

72)   Although not a unique store of value, people find money a convenient store of value because
(a) it does not decline in value when prices rise.
(b) its value remains fixed to the price level; that is, if prices double so does the value of money.
(c) it is the most liquid asset.
(d) of all of the above.
(e) of none of the above.

Answer: C
Question Status: Previous Edition

73) Increasing transactions costs of selling an asset make the asset
    (a) more valuable.
    (b) more liquid.
    (c) less liquid.
    (d) more moneylike.
    (e) more fungible.
    Answer: C
    Question Status: Study Guide

74) Of the following assets, the most liquid is
    (a) savings bonds.
    (b) corporate Bonds.
    (c) stocks.
    (d) traveler's checks.
    (e) certificates of deposit.
    Answer: D
    Question Status: New

75) Of the following assets, the least liquid is
    (a) currency.
    (b) traveler's checks.
    (c) checking deposits.
    (d) a house.
    (e) stocks.
    Answer: D
    Question Status: New

76) Ranking assets from most liquid to least liquid, the correct order is
    (a) savings bonds; house; currency.
    (b) currency; savings bonds; house.
    (c) currency; house; savings bonds.
    (d) house; savings bonds; currency.
    (e) house; currency; savings bonds.
    Answer: B
    Question Status: New

77) Ranking assets from most liquid to least liquid, the correct order is
    (a) savings deposits; corporate bond; swimming pool.
    (b) swimming pool; savings deposits; corporate bond.
    (c) corporate bond; savings deposits; swimming pool.
    (d) swimming pool; corporate bonds; savings deposits.
    (e) savings deposits; swimming pool; corporate bonds.
    Answer: A
    Question Status: New

78) Assets such as bonds, common stock, art, land, furniture, cars, or houses function as stores of value, but
   (a) are not generally accepted in the payment for goods and services.
   (b) do not generate flows of income for their owners.
   (c) are not considered as wealth.
   (d) all of the above.
   (e) only (a) and (b) of the above.

   Answer: A
   Question Status: Previous Edition

79) Checkable deposits are money because
   (a) federal regulations mandate that they be so considered.
   (b) they serve the functions of money.
   (c) only banks, and not savings and loan associations, can issue checkable deposits.
   (d) of both (a) and (b) of the above.
   (e) of both (a) and (c) of the above.

   Answer: B
   Question Status: Previous Edition

80) People hold money even during inflationary episodes when other assets prove to be better stores of value. This can be explained by the fact that money is
   (a) extremely liquid.
   (b) a unique good for which there are no substitutes.
   (c) the only thing accepted in economic exchange.
   (d) all of the above.

   Answer: A
   Question Status: Previous Edition

81) If the price level doubles, the value of money
   (a) doubles.
   (b) more than doubles, due to scale economies.
   (c) rises but does not double, due to diminishing returns.
   (d) falls by 50 percent.

   Answer: D
   Question Status: Previous Edition

82) If the level of prices falls by 50 percent, the value of money
   (a) falls by 50%.
   (b) falls by 100%.
   (c) remains unchanged.
   (d) rises by 50%.
   (e) doubles.

   Answer: E
   Question Status: New

83)   A fall in the level of prices
   (a) does not affect the value of money.
   (b) has an uncertain effect on the value of money.
   (c) increases the value of money.
   (d) reduces the value of money.
   (e) is impossible.

   Answer: C
   Question Status: New

84)   During hyperinflations,
   (a) the value of money rises rapidly.
   (b) money no longer functions as a good store of value and people may resort to barter transactions
        on a much larger scale.
   (c) middle-class savers benefit as prices rise.
   (d) all of the above occur.

   Answer: B
   Question Status: Previous Edition

85)   During hyperinflations,
   (a) the value of money falls rapidly.
   (b) money no longer functions as a good store of value and the volume of barter transactions
        increases.
   (c) debtors benefit as the real value of their debt falls.
   (d) all of the above occur.

   Answer: D
   Question Status: Previous Edition

86)   During periods of rapidly rising prices
   (a) money fails to serve as a good store of value.
   (b) money fails to serve as a unit of account.
   (c) money fails to serve as a medium of exchange.
   (d) money fails to serve as a standard of value.

   Answer: A
   Question Status: Previous Edition

87)   If one observes a decline in the use of money to carry out transactions and an increase in barter
   exchanges, then one can probably infer that
   (a) inflation has accelerated into hyperinflation.
   (b) money no longer serves as a store of value.
   (c) the use of money no longer significantly reduces transaction costs.
   (d) all of the above.
   (e) only (a) and (b) of the above.

   Answer: D
   Question Status: Previous Edition

88) When prices in a particular country rise extremely rapidly, the country suffers

(a) deflation.

(b) disinflation.

(c) hyperinflation.

(d) all of the above.

Answer: C

Question Status: Previous Edition

89) Because inflation in Nicaragua in 1990 topped 13,000 percent, one can conclude that the Nicaraguan economy suffered from

(a) deflation.

(b) disinflation.

(c) hyperinflation.

(d) superdeflation.

Answer: C

Question Status: Previous Edition

90) If merchants in the country Zed choose to close their doors, preferring to be stuck with rotting merchandise rather than worthless currency, then one can conclude that Zed is experiencing a

(a) superdeflation.

(b) hyperdeflation.

(c) disinflation.

(d) hyperinflation.

Answer: D

Question Status: Previous Edition

91) If currency in the country of Zed is seen as worthless by its citizens, then Zed is probably experiencing a

(a) superdeflation.

(b) hyperdeflation.

(c) disinflation.

(d) hyperinflation.

Answer: D

Question Status: Previous Edition

92) If merchants in the country Zed choose to close their doors, preferring to be stuck with rotting merchandise rather than worthless currency, then one can conclude that money in Zed is

(a) a poor store of value.

(b) scarce relative to goods.

(c) being heavily counterfeited.

(d) all of the above.

(e) none of the above.

Answer: A

Question Status: Previous Edition

93)   Compared to checks, paper currency and coins have the major drawbacks that they
    (a) are easily stolen.
    (b) can be quite expensive to transport because of their bulk.
    (c) are not the most liquid assets.
    (d) all of the above.
    (e) only (a) and (b) of the above.

    Answer: E
    Question Status: Previous Edition

94)   As a payments system evolves from barter to a monetary system, paper currency will replace
    commodity money when
    (a) trade expands over a larger region, increasing significantly the transportation costs of
        commodity money.
    (b) printing reaches a sufficiently advanced stage that counterfeiting becomes extremely difficult.
    (c) large purchases, such as automobiles and houses, become more prevalent.
    (d) all of the above occur.
    (e) only (a) and (b) of the above occur.

    Answer: D
    Question Status: Previous Edition

95)   As the payments system evolves from barter to a monetary system,
    (a) commodity money is likely to precede the use of paper currency.
    (b) transaction costs decline.
    (c) the number of prices that need to be calculated increase rather dramatically.
    (d) all of the above.
    (e) only (a) and (b) of the above.

    Answer: E
    Question Status: Previous Edition

96)   As the payments system evolves from barter to a monetary system,
    (a) commodity money is likely to precede the use of paper currency.
    (b) transactions costs decline.
    (c) the number of prices that need to be calculated decrease.
    (d) all of the above.
    (e) only (a) and (b) of the above.

    Answer: D
    Question Status: Previous Edition

97)   The evolution of the payments system from barter to precious metals, then to fiat money, then to
    checks can best be understood as a consequence of
    (a) government regulations designed to improve the efficiency of the payments system.
    (b) government regulations designed to promote the safety of the payments system.
    (c) innovations that reduced the costs of exchanging goods and services.
    (d) all of the above.
    (e) only (a) and (c) of the above.

    Answer: C
    Question Status: Previous Edition

98) The evolution of the payments system from barter to precious metals, then to fiat money, then to checks can best be understood as a consequence of

(a) government regulations designed to improve the efficiency of the payments system.

(b) competition among firms to make it easier for customers to purchase their products.

(c) innovations that reduced the costs of exchanging goods and services.

(d) all of the above.

(e) only (b) and (c) of the above.

Answer: C
Question Status: Previous Edition

99) The evolution of the payments system from barter to precious metals, then to fiat money, then to checks can best be understood as a consequence of

(a) innovations that allowed individuals to escape oppressive taxes.

(b) the fact that precious metals were not generally acceptable.

(c) the fact that precious metals were difficult to carry and transport.

(d) the fact that paper money is less accepted than checks.

(e) the fact that paper more costly to produce than precious metals.

Answer: C
Question Status: Study Guide

100) Which of the following are true about the evolution of the payments system?

(a) The evolution of the payments system from barter to precious metals, then to fiat money, then to checks can best be understood as a consequence of innovations that reduced the costs of exchanging goods and services.

(b) Precious metals had the advantage of being widely accepted, being divisible into relatively small units, and being durable, but had the disadvantage of being difficult to carry and transport from one place to another.

(c) Fiat money, paper money that the government makes legal tender, has the advantage of being lighter than coins, yet it can still be costly to transport because of its bulk.

(d) All of the above are true.

Answer: D
Question Status: Previous Edition

101) Which of the following sequences accurately describes the evolution of the payments system?

(a) Barter, coins made of precious metals, paper currency, checks, electronic funds transfers.

(b) Barter, coins made of precious metals, checks, paper currency, electronic funds transfers.

(c) Barter, checks, paper currency, coins made of precious metals, electronic funds transfers.

(d) Barter, checks, paper currency, electronic funds transfers.

Answer: A
Question Status: Previous Edition

102) In explaining the evolution of money
   (a) government regulation is the most important factor.
   (b) commodity money, because it is valued more highly, tends to drive out paper money.
   (c) new forms of money evolve to lower transaction costs.
   (d) all of the above are true.

   Answer: C
   Question Status: Revised

103) Even with the spread of electronic funds transfer systems (EFTS) to more users, checks are not likely to be eliminated soon because
   (a) people want paper receipts.
   (b) checks reduce the incidence of fraud.
   (c) banks are unlikely to install the necessary electronic facilities.
   (d) of all of the above.
   (e) of both (a) and (b) of the above.

   Answer: E
   Question Status: Previous Edition

104) During the past two decades an important characteristic of the modern payments system has been the rapidly increasing use of
   (a) checks and decreasing use of currency.
   (b) electronic fund transfers.
   (c) commodity monies.
   (d) all of the above.

   Answer: B
   Question Status: Previous Edition

105) Compared to a payment system based on checks, an EFTS system has the advantage that
   (a) transfers of funds are less costly.
   (b) transfers of funds are completed instantaneously.
   (c) legal liability is more clearly defined.
   (d) only (a) and (b) of the above.

   Answer: D
   Question Status: Previous Edition

106) Compared to an EFTS system, a payments system based on checks has the major drawback that
   (a) checks are more costly to process.
   (b) checks take longer to process, meaning that it may take several days before the depositor can get her cash.
   (c) fraud may be more difficult to commit when paper receipts are eliminated.
   (d) all of the above.
   (e) both (a) and (b) of the above.

   Answer: E
   Question Status: Previous Edition

107) A payments system based primarily on checks has the following disadvantages:
   (a) Checks are costly to process.
   (b) Checks are costly to transport.
   (c) Checks take time to move through the check-clearing system.
   (d) All of the above.
   (e) Only (a) and (b) of the above.

   Answer: D
   Question Status: Study Guide

108) A smart card is the equivalent of
   (a) cash.
   (b) checks.
   (c) savings deposits.
   (d) certificates of deposit.
   (e) savings bonds.

   Answer: A
   Question Status: New

109) Which of the following forms of electronic money is a substitute for cash?
   (a) a debit card
   (b) a stored-value card
   (c) a smart card
   (d) all of the above
   (e) only (b) and (c) of the above

   Answer: D
   Question Status: New

110) Which of the following forms of electronic money is not a substitute for cash?
   (a) a debit card
   (b) a credit card
   (c) a stored-value card
   (d) a smart card
   (e) all of the above

   Answer: B
   Question Status: New

111) As part of the December 1991 Maastrict Treaty of European Union, the exchange rates of countries entering the monetary union, starting January 1, 1999, were
   (a) fixed permanently to the euro.
   (b) allowed to float for the next six months before being fixed permanently to the euro.
   (c) allowed to float for the next year before being fixed permanently to the euro.
   (d) allowed to float permanently against the euro.

   Answer: A
   Question Status: Revised

112) Advocates of the European monetary union point to the advantages that a single currency has in
  (a) eliminating the transaction costs involved in having to exchange the currency of one country for the currency of another.
  (b) delaying the economic integration of European countries.
  (c) allowing member countries to repudiate their government debts.
  (d) doing all of the above.

  Answer: A
  Question Status: Previous Edition

113) Advocates of monetary union claim that the adoption of a common currency by Germany in 1990 had the advantages of
  (a) eliminating the transaction costs of exchanging the currencies of East and West Germany.
  (b) hastening the economic integration of the two countries.
  (c) making East Germany's good cheaper for West German citizens.
  (d) all of the above.
  (e) both (a) and (b) of the above.

  Answer: E
  Question Status: Previous Edition

114) Advocates of monetary union claim that the adoption of a common currency by Germany in 1990 had the advantages of
  (a) eliminating the transaction costs of exchanging the currencies of East and West Germany.
  (b) slowing the economic integration of the two countries, thereby allowing East German citizens time to adjust to capitalism.
  (c) making East Germany's good cheaper for West German citizens.
  (d) all of the above.
  (e) both (a) and (b) of the above.

  Answer: A
  Question Status: Previous Edition

115) Recent financial innovation makes the Federal Reserve's job of conducting monetary policy
  (a) easier, since the Fed now knows what to consider money.
  (b) more difficult, since the Fed now knows what to consider money.
  (c) easier, since the Fed no longer knows what to consider money.
  (d) more difficult, since the Fed no longer knows what to consider money.

  Answer: D
  Question Status: Previous Edition

116) Defining money becomes _____ difficult as the pace of financial innovation _____.
  (a) less; quickens
  (b) more; quickens
  (c) more; slows
  (d) more; stops
  (e) none of the above

  Answer: B
  Question Status: Study Guide

117) The narrowest measure of money that the Fed reports is
   (a) M0.
   (b) M1.
   (c) M2.
   (d) M3.

   Answer: B
   Question Status: Previous Edition

118) Today, most money in the United States is in the form of
   (a) currency.
   (b) currency and coins.
   (c) checkable deposits.
   (d) savings bonds.

   Answer: C
   Question Status: Previous Edition

119) Which of the following is not included in the measure of M1?
   (a) NOW accounts
   (b) Demand deposits
   (c) Currency
   (d) Repurchase agreements

   Answer: D
   Question Status: Previous Edition

120) Which of the following is not included in the measure of M1?
   (a) Traveler's checks
   (b) Demand deposits
   (c) Currency
   (d) Gold coins issued by the U.S. Treasury

   Answer: D
   Question Status: Previous Edition

121) The components of the U.S. M1 money supply are demand and checkable deposits plus
   (a) currency.
   (b) currency plus savings deposits.
   (c) currency plus travelers checks.
   (d) currency plus travelers checks plus money market deposits.

   Answer: C
   Question Status: Previous Edition

122) The M1 measure of money includes
   (a) small denomination time deposits.
   (b) money market deposit accounts.
   (c) money market mutual fund shares.
   (d) demand deposits.

   Answer: D
   Question Status: Previous Edition

123) The M1 measure of money includes
    (a) small denomination time deposits.
    (b) savings deposits.
    (c) money market deposit accounts.
    (d) money market mutual fund shares.
    (e) traveler's checks.

    Answer: E
    Question Status: Previous Edition

124) The M1 measure of money includes
    (a) small denomination time deposits.
    (b) savings deposits.
    (c) money market deposit accounts.
    (d) money market mutual fund shares.
    (e) currency.

    Answer: E
    Question Status: Previous Edition

125) Which of the following is not included in the monetary aggregate M2?
    (a) Currency
    (b) Money market deposit accounts
    (c) Traveler's checks
    (d) Checking deposits
    (e) Savings bonds

    Answer: E
    Question Status: Study Guide

126) Which of the following is included in M2 but not in M1?
    (a) NOW accounts
    (b) Demand deposits
    (c) Currency
    (d) Money market mutual fund shares (noninstitutional)
    (e) Gold coins issued by the U.S. Treasury

    Answer: D
    Question Status: Previous Edition

127) Which of the following is included in M2 but not in M1?
    (a) NOW accounts
    (b) Money market deposit accounts
    (c) Demand deposits
    (d) Traveler's checks

    Answer: B
    Question Status: Revised

128) Which of the following is included in the M1 measure of money but is not included in the M2 measure of money?

(a) Currency

(b) Checkable deposits

(c) Traveler's checks

(d) All of the above

(e) None of the above

Answer: E
Question Status: Previous Edition

129) Which of the following is not included in the M2 measure of money but is included in the M1 measure of money?

(a) Currency

(b) Demand deposits

(c) Traveler's checks

(d) Other checkable deposits

(e) None of the above

Answer: E
Question Status: Previous Edition

130) Which of the following is not included in the M2 measure of money but is included in the M1 measure of money?

(a) Small denomination time deposits

(b) Savings deposits

(c) Checkable deposits

(d) All of the above

(e) None of the above

Answer: E
Question Status: Previous Edition

131) Which of the following is not included in the M1 measure of money but is included in the M2 measure of money?

(a) Currency

(b) Traveler's checks

(c) Demand deposits

(d) Small denomination time deposits

Answer: D
Question Status: Previous Edition

132) Which of the following is not included in the M1 measure of money but is included in the M2 measure of money?

(a) Savings deposits

(b) Demand deposits

(c) Traveler's checks

(d) Other checkable deposits

Answer: A
Question Status: Previous Edition

133) Which of the following is included in both M1 and M2?

(a) Currency
(b) Savings deposits
(c) Small time deposits
(d) Money market deposit accounts
(e) Savings bonds

Answer: A
Question Status: New

134) Of the following, the largest is

(a) currency.
(b) checking deposits.
(c) M1.
(d) M2.
(e) M3.

Answer: E
Question Status: New

135) If an individual redeems a U.S. savings bond for currency

(a) M1 stays the same and M2 decreases.
(b) M1 increases and M2 decreases.
(c) M1 increases and M2 stays the same.
(d) M1 stays the same and M2 stays the same.
(e) M1 increases and M2 increases.

Answer: E
Question Status: Study Guide

136) If an individual moves money from a small-denomination time deposit to a demand deposit account,

(a) M1 increases and M2 stays the same.
(b) M1 stays the same and M2 increases.
(c) M1 stays the same and M2 stays the same.
(d) M1 increases and M2 decreases.

Answer: A
Question Status: Previous Edition

137) If an individual moves money from a demand deposit account to a small-denomination time deposit account,

(a) M1 decreases and M2 stays the same.
(b) M1 stays the same and M2 increases.
(c) M1 stays the same and M2 stays the same.
(d) M1 increases and M2 decreases.

Answer: A
Question Status: Previous Edition

138) If an individual moves money from a small-denomination time deposit to a money market deposit account,

(a) M1 increases and M2 stays the same.

(b) M1 stays the same and M2 increases.

(c) M1 stays the same and M2 stays the same.

(d) M1 increases and M2 decreases.

Answer: C

Question Status: Previous Edition

139) If an individual moves money from a demand deposit account to a money market deposit account,

(a) M1 decreases and M2 stays the same.

(b) M1 stays the same and M2 increases.

(c) M1 stays the same and M2 stays the same.

(d) M1 increases and M2 decreases.

Answer: A

Question Status: Previous Edition

140) If an individual moves money from a small-denomination time deposit to a savings deposit account,

(a) M1 increases and M2 stays the same.

(b) M1 stays the same and M2 increases.

(c) M1 stays the same and M2 stays the same.

(d) M1 increases and M2 decreases.

Answer: C

Question Status: Previous Edition

141) If an individual moves money from a savings deposit account to a money market deposit account,

(a) M1 decreases and M2 stays the same.

(b) M1 stays the same and M2 increases.

(c) M1 stays the same and M2 stays the same.

(d) M1 increases and M2 decreases.

Answer: C

Question Status: Previous Edition

142) If an individual moves money from a money market deposit account to a demand deposit account,

(a) M1 decreases and M2 stays the same.

(b) M1 stays the same and M2 increases.

(c) M1 stays the same and M2 stays the same.

(d) M1 increases and M2 stays the same.

Answer: D

Question Status: Previous Edition

143) If an individual moves money from a (noninstitutional) money market mutual fund to a savings deposit account,
   (a) M1 increases and M2 stays the same.
   (b) M1 stays the same and M2 increases.
   (c) M1 stays the same and M2 stays the same.
   (d) M1 increases and M2 decreases.

   Answer: C
   Question Status: Previous Edition

144) If an individual moves money from currency to a money market deposit account,
   (a) M1 decreases and M2 stays the same.
   (b) M1 stays the same and M2 increases.
   (c) M1 stays the same and M2 stays the same.
   (d) M1 increases and M2 decreases.

   Answer: A
   Question Status: Previous Edition

145) If an individual moves money from currency to a demand deposit account,
   (a) M1 decreases and M2 stays the same.
   (b) M1 stays the same and M2 increases.
   (c) M1 stays the same and M2 stays the same.
   (d) M1 increases and M2 stays the same.

   Answer: C
   Question Status: Previous Edition

146) If an individual moves money from a (noninstitutional) money market mutual fund to a large-denomination time deposit account,
   (a) M2 decreases and M3 stays the same.
   (b) M2 stays the same and M3 increases.
   (c) M2 stays the same and M3 stays the same.
   (d) M2 increases and M3 decreases.

   Answer: A
   Question Status: Previous Edition

147) If an individual moves money from a money market deposit account to currency,
   (a) M1 increases and M2 stays the same.
   (b) M1 stays the same and M2 increases.
   (c) M1 stays the same and M2 stays the same.
   (d) M1 increases and M2 decreases.

   Answer: A
   Question Status: Previous Edition

148) If an individual moves money from a (noninstitutional) money market mutual fund to a money market deposit account,

(a) M2 decreases and M3 stays the same.

(b) M2 stays the same and M3 increases.

(c) M2 stays the same and M3 stays the same.

(d) M2 increases and M3 decreases.

Answer: C
Question Status: Previous Edition

149) The growth rates of monetary aggregates

(a) follow one another exactly.

(b) tend to move together in the short run but not in the long run.

(c) are unrelated in the long run.

(d) tend to move together in the long run but can diverge in the short run.

(e) are most closely related during the 1990s.

Answer: D
Question Status: New

150) The decade during which the growth rates of monetary aggregates diverged the most is

(a) the 1950s.

(b) the 1960s.

(c) the 1970s.

(d) the 1980s.

(e) the 1990s.

Answer: E
Question Status: New

151) Generally, the data initially reported by the Fed are

(a) not a reliable guide to the short-run behavior of the money supply.

(b) a reliable guide to the long-run behavior of the money supply.

(c) a reliable guide to the short-run behavior of the money supply.

(d) both (a) and (b) of the above.

(e) both (b) and (c) of the above.

Answer: D
Question Status: Study Guide

152) An examination of revised money supply statistics, when compared to the initial statistics, suggests that

(a) the initial statistics are pretty good.

(b) the initial statistics do not provide a good guide to short-run movements in the money supply.

(c) the initial statistics provide a poor guide of monetary policy because they are usually underestimates of the revised statistics.

(d) the initial statistics provide a good guide of monetary policy, though they are usually underestimates of the revised statistics.

Answer: B
Question Status: Previous Edition

153) The Fed revises its estimates of the monetary aggregates, sometimes by large amounts, because
   (a) large depository institutions need only report their deposits infrequently.
   (b) weekly monetary data need to be adjusted for the "weekend effect."
   (c) monthly monetary data need to be adjusted for the "payday effect."
   (d) of none of the above.

   Answer: D
   Question Status: Previous Edition

154) The Fed revises its estimates of the monetary aggregates, sometimes by large amounts, because
   (a) small depository institutions need only report their deposits infrequently.
   (b) seasonal adjustments become more precise only as more data become available.
   (c) monthly monetary data need to be adjusted for the "payday effect."
   (d) of all of the above.
   (e) of only (a) and (b) of the above.

   Answer: E
   Question Status: Previous Edition

155) Which of the following statements accurately describes the three different measures of the money supply—M1, M2, and M3?
   (a) The three measures do not move together, so they cannot be used interchangeably by policymakers.
   (b) The three measures' movements closely parallel each other, even on a month-to-month basis.
   (c) Short-run movements in the money supply are extremely reliable.
   (d) Both (a) and (c) of the above.

   Answer: A
   Question Status: Previous Edition

156) Which of the following statements accurately describes the three different measures of the money supply—M1, M2, and M3?
   (a) M1 is the narrowest measure.
   (b) Initial estimates of the money supply are not a reliable guide to what is happening to the money supply in the short run.
   (c) The three measures do not move together, so they cannot be used interchangeably by policymakers.
   (d) All of the above.
   (e) Only (a) and (b) of the above.

   Answer: D
   Question Status: Previous Edition

157) Which of the following statements accurately describes the three different measures of the money supply—M1, M2, and M3?

(a) M2 is the narrowest measure.

(b) Initial estimates of the money supply are a reliable guide to what is happening to the money supply in the short run.

(c) The three measures do not move together, so they cannot be used interchangeably by policymakers.

(d) All of the above.

(e) Only (a) and (b) of the above.

Answer: C
Question Status: Previous Edition

■ Essay Questions

1)   Explain the functions of money and the problems of barter that each overcomes.

Answer: Money is a medium of exchange, generally acceptable for payment for goods, services, and debts. It reduces transactions costs relative to barter and eliminates the double coincidence of wants. Money is a unit of account, reducing the transactions costs associated with the multiplicity of barter prices. Money is a store of value. As a store of value, money is more liquid than the many stores of value that might be used under barter.

2)   Discuss the advantages and disadvantages of monetary union in Europe.

Answer: Advantages include reduced transactions costs from using a common currency and promotion of further integration.
Disadvantages include lack of labor mobility, and lack of fiscal transfers across regions, depressing some regions while others grow.

3)   The payments system has evolved from commodity money to fiat money to checks to electronic money. Discuss one advantage and one disadvantage of each form of money.

Answer: Commodity money—Advantages: standardized; widely acceptable; divisible; does not deteriorate. Disadvantage: difficult to carry and transport.
Fiat money—Advantage: easy to carry. Disadvantage: requires trust in authorities to be acceptable, easily stolen, and can be difficult to transport large amounts.
Checks—Advantages: reduce transport costs, easy to transfer large amounts, safe.
Disadvantages: Takes time to clear checks, costly to clear checks.
Electronic money—Advantages: very low cost, ease of use. Disadvantages: Initial cost of computer systems, safety concerns; concerns about privacy due to electronic trail.