MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Money eliminates the need for
   A) specialization.                       B) people to have a double coincidence of wants.
   C) the market system.                   D) any government role in the economy.

2) Suppose you can buy more with one dollar in the year 2005 than you could have in the year 2000. Then we can say that
   A) there must have been inflation between 2000 and 2005.
   B) there must have been deflation between 2000 and 2005.
   C) the economy must have been growing slowly between 2000 and 2005.
   D) the economy must have been growing rapidly between 2000 and 2005.

3) The total payment to a lender for a simple loan is
   A) $i(1 + i)$.                         B) $P(1 + i)$.
   C) $P$.                              D) $P + i$.

4) Suppose First National Bank makes a one-year simple loan of $10,000 at 5% interest to Acme Widget. At the end of one year Acme Widget will pay First National
   A) $9523.81.                          B) $9500.
   C) $10,050.                           D) $10,500.

5) Suppose Acme Widget issues a one-year discount bond with a face value of $10,000, and received $9434, repaying $10,000 after one year. The interest rate on this bond would be
   A) 6%.                                B) 5.66%.
   C) 4.34%.                             D) 10%.

6) If you deposit $5000 in a savings account at an annual interest rate of 10%, how much will you have in the account at the end of seven years?
   A) $10,718                             B) $9744.
   C) $850                               D) $5500

7) $1 received n years from now has a value today of
   A) $(1 + i)^n/i$.                      B) $(1 + i)/i$.
   C) $1/(1 + i)$.                       D) $1/(1 + i)^n$.

8) A one-year discount bond with a par value of $10,000 sold today, at issuance, for $9500 has a yield to maturity of
   A) 5.26%.                             B) 9.50%.
   C) 5.00%.                             D) 10.00%.

9) What is the price of a coupon bond that has annual coupon payments of $85, a par value of $1000, a yield to maturity of 10%, and a maturity of three years?
   A) $962.70                            B) $211.38.
   C) $1255.00                           D) $898.84

10) Which of the following is the correct expression for the expected real interest rate?
    A) $r = i p^e$                       B) $r = i + p^e$.
    C) $r = i - p^e$                     D) $r = i / p^e$
11) A one-year discount bond with a face value of $10,000 that is currently selling for $8000 has an interest rate of
A) 2.5%.  B) 20%.  C) 80%.  D) 25%

12) Suppose that a slice of pepperoni pizza costs one pound in London and two dollars in San Francisco. If the
real exchange rate is one-third of a slice of U.S. pizza for one slice of British pizza, how many pounds should
you receive in exchange for one dollar?
A) 1/3  B) 3  C) 2  D) 1.5

13) If oranges sell for $100 per crate in the United States and 4000 pesos per crate in Mexico, the law of one price
indicates that you should be able to exchange one dollar for
A) 4 pesos.  B) 40 pesos.  C) 0.025 peso.  D) 400 pesos.

14) Which of the following is the correct expression for the value of $1 invested in a foreign security for one year?
A) 1 - if + ΔEXe / EX  B) 1 + if - ΔEXe / EX  C) 1 - if - ΔEXe / EX  D) 1 + if + ΔEXe / EX

15) Suppose that Acme Widget is currently selling for $100 per share and you own a call option to buy Acme
Widget at $75 per share. The intrinsic value of your option is
A) $100.  B) $75.  C) $25.  D) is not possible to determine in the absence of information on values of the share price of Acme Widget
between now and the expiration date of the call.

16) If you deposit $100 in your bank and the required reserve ratio is 20%, your bank will have
A) an increase in required reserves of $20 and an increase in excess reserves of $80.
B) an increase in required reserves of $500.
C) an increase in required reserves of $80.
D) an increase in required reserves of $100.

17) A $10 million open market purchase will increase bank reserves by
A) $10 million divided by the money multiplier.
B) $10 million.
C) an amount between 0 and $10 million, depending on the fraction of the purchase the public wishes to hold
as currency.
D) $10 million times the money multiplier.

18) Suppose that a bank with no excess reserves receives a deposit into a checking account of $10,000 in currency. If the required reserve ratio is 0.20, what is the maximum amount that the bank can lend out?
A) $2000  B) $50,000  C) $10,000  D) $8000

19) Suppose that the banking system currently has no excess reserves and that a bank receives a deposit into a
checking account of $10,000 in currency. If the required reserve ratio is 0.20, what is the maximum amount that
the banking system can lend out?
A) $8000  B) $50,000  C) $40,000  D) $10,000
20) If the quantity of money is $4 trillion and nominal GDP is $8 trillion, velocity is
   A) 0.5.
   B) 2.
   C) $32 trillion.
   D) not computable unless the value of the price level is given.

21) In order to convert the equation of exchange into a theory of money demand, we need to rewrite it as
   A) \( \frac{P}{M} = \frac{V}{Y} \).
   B) \( V = \frac{PY}{M} \).
   C) \( \frac{M}{P} = \frac{1}{V} Y \).
   D) \( M = \frac{PY}{V} \).

22) The most important difference between \( M_1 \), on the one hand, and \( M_2 \) and \( M_3 \), on the other hand, is that
   A) \( M_2 \) and \( M_3 \) included assets with greater liquidity than those included in \( M_1 \).
   B) \( M_1 \) includes currency, but \( M_2 \) and \( M_3 \) do not.
   C) \( M_2 \) and \( M_3 \) include assets with less liquidity than those included in \( M_1 \).
   D) \( M_1 \) includes checkable deposits, but \( M_2 \) and \( M_3 \) do not.

23) The fact that in addition to being a medium of exchange, money serves as a store of value means that
   A) money competes with other assets in the portfolios of businesses and households.
   B) the demand for real balances should increase more than proportionately with increases in real income.
   C) movements in the interest rate should not affect the demand for money.
   D) movements in the price level should not affect the demand for money.

24) An individual with a high income will probably
   A) hold a larger fraction of her wealth in the form of money than will an individual with a low income.
   B) hold a smaller fraction of her wealth in the form of money than will an individual with a low income.
   C) hold a smaller fraction of her wealth in the form of money than will a large corporation.
   D) hold the same fraction of her wealth in the form of money as will an individual with a low income.

25) Which of the following is true?
   A) The demand for real balances increases less than proportionately with real income.
   B) The demand for real balances increases more than proportionately with real income.
   C) The demand for real balances decreases as real income increases.
   D) The demand for real balances is unaffected by changes in real income.

26) The demand for money for transactions is
   A) likely to fall during periods of inflation.
   B) proportional to the price level.
   C) independent of the price level.
   D) constant over long periods of time.

27) If people use automated teller machines more frequently, what will happen to \( M_1 \) velocity?
   A) It will rise, fall, or be unaffected depending upon the size of the money multiplier.
   B) It will fall.
   C) It will rise.
   D) It will be unaffected.
28) If on average a dollar is spent five times each year to purchase goods and services in the economy, then
A) the value of velocity must be 5.
B) the value of the money supply divided by nominal GDP must be 5.
C) the value of nominal GDP divided by the money supply must be .2.
D) the value of velocity must be .2.

29) The quantity theory of money
A) included the interest rate, but did not include income as a factor in the demand for money.
B) included both income and the interest rate as factors in the demand for money.
C) did not include either income or the interest rate as factors in the demand for money.
D) included income, but did not include the interest rate as a factor in the demand for money.

30) Which of the following would NOT cause the IS curve to shift to the left?
A) a decrease in the expected future profitability of capital
B) a decrease in government purchases
C) an increase in consumer confidence
D) a decrease in foreign demand for domestic products

31) The intersection of the IS curve and the FE line
A) represents money market equilibrium.
B) determines the equilibrium real interest rate and the equilibrium inflation rate.
C) determines the equilibrium level of current output and the equilibrium inflation rate.
D) represents goods market equilibrium.

32) An increase in real output causes the demand for real balances
A) and the interest rate to fall.  
B) and the interest rate to rise.
C) to fall and the interest rate to rise.  
D) to rise and the interest rate to fall.

33) At a point above the LM curve,
A) there is an excess demand for goods.
B) there is an excess demand for money.
C) the real interest rate is below its equilibrium level.
D) there is an excess demand for nonmoney assets.

34) Which of the following will NOT cause the LM curve to shift?
A) an increase in the expected inflation rate  
B) a decline in real output
C) a decline in the nominal return on money  
D) an increase in the aggregate price level

35) Following a decline in the quantity of real money balances supplied, equilibrium is restored in the money market by
A) a decline in the price level.  
B) a decline in the current level of output.
C) a decline in the quantity of money demanded.  
D) a rise in the price level.
36) Which of the following does NOT necessarily hold when the economy is in long-run equilibrium?
   A) The current output supplied is equal to the current output demanded.
   B) Households and businesses are willing to accept the mix of money and nonmoney assets they hold.
   C) Saving equals investment.
   D) The nominal interest rate is equal to the real interest rate.

37) Which of the following is NOT included in aggregate demand?
   A) investment in business plant and equipment
   B) demand for goods and services for consumption
   C) investment in Treasury bonds
   D) net exports

38) The aggregate demand curve illustrates the relationship between
   A) the aggregate demand for goods and services and the level of current output.
   B) the aggregate demand for goods and services and the real interest rate.
   C) the level of current output and the real interest rate.
   D) the aggregate demand for goods and services and the aggregate price level.

39) Everything else being constant, a lower real interest rate
   A) increases desired investment but decreases net exports.
   B) increases desired saving and net exports.
   C) increases desired saving and investment.
   D) decreases desired saving but increases net exports.

40) Points along the aggregate demand curve represent combinations of the price level and current output for which
   A) the money market and the market for nonmoney assets are in equilibrium, but the goods market may not be.
   B) the goods market and the market for nonmoney assets are in equilibrium, but the money market may not be.
   C) the money market, the market for nonmoney assets, and the goods market must all be in equilibrium.
   D) the money market and the goods market are in equilibrium, but the market for nonmoney assets may not be.

41) Which of the following will NOT shift the aggregate demand curve to the right?
   A) a decline in money demand
   B) an increase in the money supply
   C) an increase in government expenditures
   D) a decline in the price level

42) Which of the following would NOT shift the aggregate demand curve to the left?
   A) an increase in the money supply
   B) a decrease in consumption spending
   C) an increase in money demand
   D) a cut in federal government spending

43) If in the short run prices did not respond at all to changes in aggregate demand, the short-run aggregate supply curve would
   A) slope down.
   B) slope up.
   C) be vertical.
   D) be horizontal.
44) Which of the following is **NOT** an example of a supply shock?
A) a drought in the Midwest
B) the introduction of a new line of computer-controlled machine tools in manufacturing
C) a decline in natural gas prices following discovery of new fields
D) a substantial increase in federal government spending on Medicare

45) If oil prices fall at the same time that the federal government increases its spending, in the short run
A) aggregate output will increase, but the price level may either increase or decrease.
B) aggregate output and the price level will both increase.
C) aggregate output and the price level will both fall.
D) aggregate output will increase, but the price level will fall.

46) Economists generally agree that in the long run changes in aggregate demand affect
A) both the price level and aggregate output.
B) aggregate output but not the price level.
C) neither the price level nor aggregate output.
D) the price level but not aggregate output.

47) Most economists believe that changes in the price level
A) have an effect on the quantity of output supplied in the short run, but not in the long run.
B) have an effect on the quantity of output supplied in both the short run and the long run.
C) have an effect on the quantity of output supplied in the long run, but not in the short run.
D) have no effect on the quantity of output supplied in either the short run or the long run.

48) If wages and prices in long-term contracts were fully indexed,
A) prices would be more sticky in the short run.
B) prices would be more sticky in the long run.
C) the stickiness of prices would not be affected.
D) prices would be less sticky in the short run.

49) An increase in the expected price level
A) shifts the short-run aggregate supply curve down and to the right.
B) results in a movement along the short-run aggregate supply curve, rather than a shift in the short-run aggregate supply curve.
C) shifts the short-run aggregate supply curve up and to the left.
D) has no effect on the short-run aggregate supply curve.

50) Monetary neutrality refers to the fact that changes in the money supply
A) affect output more in the long run than in the short run.
B) have a greater effect on prices in the short run than in the long run.
C) affect only output in the short run.
D) have no effect on output in the long run.
1) Answer: B
2) Answer: B
3) Answer: B
4) Answer: D
5) Answer: A
6) Answer: B
7) Answer: D
8) Answer: A
9) Answer: A
10) Answer: C
11) Answer: D
12) Answer: D
13) Answer: B
14) Answer: B
15) Answer: C
16) Answer: A
17) Answer: C
18) Answer: D
19) Answer: C
20) Answer: B
21) Answer: C
22) Answer: C
23) Answer: A
24) Answer: B
25) Answer: A
26) Answer: B
27) Answer: C
28) Answer: A
29) Answer: D
30) Answer: C
31) Answer: D
32) Answer: B
33) Answer: D
34) Answer: B
35) Answer: C
36) Answer: D
37) Answer: C
38) Answer: D
39) Answer: D
40) Answer: C
41) Answer: D
Answer Key
Testname: E4110F03F.TST

42) Answer: A
43) Answer: D
44) Answer: D
45) Answer: A
46) Answer: D
47) Answer: A
48) Answer: D
49) Answer: C
50) Answer: D