

Instructions:

40 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, 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?
- The U.S. has a trade deficit of \$50 billion.
 - The U.S. has a trade surplus of \$50 billion.
 - The U.S. has a trade deficit of \$350 billion.
 - 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?
- 10 billion euros
 - 10 billion euros
 - 30 billion euros
 - 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?
- both Carl's and Carly's
 - Carly's
 - Carl's
 - neither Carl's nor Carly's
11. Which of the following is an example of U.S. foreign portfolio investment?
- Larry, a citizen of Ireland, opens a fish and chips restaurant in the United States.
 - Albert, a German citizen, buys stock in a U.S. computer company.
 - Dustin, a U.S. citizen, opens a country-western tavern in New Zealand.
 - 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?
- 1.33 Barbados goods per U.S. good
 - 3 Barbados goods per U.S. good
 - .75 Barbados goods per U.S. good
 - 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