

## Chapter 3

### Practice Problems

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

- 1) To an economist, \_\_\_\_\_ is anything that is generally accepted in payment for goods and services or in the repayment of debt. 1) \_\_\_\_\_  
A) wealth                      B) income                      C) credit                      D) money
- 2) 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. 2) \_\_\_\_\_  
A) 20                      B) 25                      C) 30                      D) 45
- 3) Although \_\_\_\_\_ currency is lighter than coins made of metals, a disadvantage arising from modern technology is the ease of \_\_\_\_\_. 3) \_\_\_\_\_  
A) paper; counterfeiting                      B) commodity; counterfeiting  
C) fiat; transport                      D) paper; transport
- 4) Which of the following is included in M2 but not in M1? 4) \_\_\_\_\_  
A) Demand deposits  
B) Currency  
C) Money market mutual fund shares (retail)  
D) NOW accounts
- 5) Of the following, the largest is 5) \_\_\_\_\_  
A) M1.                      B) demand deposits.  
C) M2.                      D) money market deposit accounts.
- 6) If an individual redeems a U.S. savings bond for currency 6) \_\_\_\_\_  
A) M1 stays the same and M2 decreases.  
B) M1 increases and M2 stays the same.  
C) M1 stays the same and M2 stays the same.  
D) M1 increases and M2 increases.
- 7) If an individual moves money from a small-denomination time deposit to a demand deposit account, 7) \_\_\_\_\_  
A) M1 increases and M2 decreases.  
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.
- 8) If an individual moves money from a demand deposit account to a money market deposit account, 8) \_\_\_\_\_  
A) M1 increases and M2 decreases.  
B) M1 stays the same and M2 stays the same.  
C) M1 decreases and M2 stays the same.  
D) M1 stays the same and M2 increases.

- 9) If an individual moves money from a savings deposit account to a money market deposit account, 9) \_\_\_\_\_  
 A) M1 decreases and M2 stays the same.  
 B) M1 increases and M2 decreases.  
 C) M1 stays the same and M2 increases.  
 D) M1 stays the same and M2 stays the same.
- 10) If an individual moves money from currency to a demand deposit account, 10) \_\_\_\_\_  
 A) M1 increases and M2 stays the same.  
 B) M1 decreases and M2 stays the same.  
 C) M1 stays the same and M2 increases.  
 D) M1 stays the same and M2 stays the same.
- 11) If an individual moves money from a money market deposit account to currency, 11) \_\_\_\_\_  
 A) M1 increases and M2 stays the same.  
 B) M1 stays the same and M2 increases.  
 C) M1 increases and M2 decreases.  
 D) M1 stays the same and M2 stays the same.
- 12) If an individual uses money from a demand deposit account to purchase a U.S. savings bond, 12) \_\_\_\_\_  
 A) M1 stays the same and M2 stays the same.  
 B) M1 stays the same and M2 increases.  
 C) M1 decreases and M2 stays the same.  
 D) M1 decreases and M2 decreases.
- 13) Small-denomination time deposits refer to certificates of deposit with a denomination of less than 13) \_\_\_\_\_  
 A) \$1,000.                      B) \$10,000.                      C) \$100,000.                      D) \$1,000,000.
- 14) Introduction of checks into the payments system reduced the costs of exchanging goods and 14) \_\_\_\_\_  
 services. Another advantage of checks is that  
 A) they can never be stolen.  
 B) they are more widely accepted than currency.  
 C) the funds from a deposited check are available for use immediately.  
 D) they provide convenient receipts for purchases.
- 15) If there are four goods in a barter economy, then one needs to know \_\_\_\_\_ prices in order to 15) \_\_\_\_\_  
 exchange one good for another.  
 A) 8                              B) 6                              C) 5                              D) 4
- 16) Dennis notices that jackets are on sale for \$99. In this case money is functioning as a 16) \_\_\_\_\_  
 A) medium of exchange.                              B) store of value.  
 C) payments-system ruler.                              D) unit of account.
- 17) Money is 17) \_\_\_\_\_  
 A) the total collection of pieces of property that are a store of value.  
 B) always based on a precious metal like gold or silver.  
 C) a flow of earnings per unit of time.  
 D) anything that is generally accepted in payment for goods and services or in the repayment of debt.

18) Currency includes

- A) paper money and checks.
- B) paper money, coins, checks, and savings deposits.
- C) paper money and coins.
- D) paper money, coins, and checks.

18) \_\_\_\_\_

## Answer Key

Testname: UNTITLED1

- 1) D
- 2) D
- 3) A
- 4) C
- 5) C
- 6) D
- 7) D
- 8) C
- 9) D
- 10) D
- 11) A
- 12) D
- 13) C
- 14) D
- 15) B
- 16) D
- 17) D
- 18) C