

## Pre-Test Chapter 12 ed17

### Multiple Choice Questions

1. A \$20 bill is a:
  - A. gold certificate.
  - B. Treasury note.
  - C. Treasury bill.
  - D. Federal Reserve Note.
  
2. Which of the following is *not* part of the  $M2$  money supply?
  - A. money market mutual fund balances
  - B. money market deposit accounts
  - C. currency
  - D. large (\$100,000 or more) time deposits
  
3. The Federal Deposit Insurance Corporation (FDIC) insures deposits up to \$100,000 in:
  - A. mutual fund companies and pension fund companies.
  - B. thrifts and insurance companies.
  - C. commercial banks and thrifts.
  - D. securities firms and insurance companies.
  
4. Large time deposits of \$100,000 or more are:
  - A. a component of  $M1$ .
  - B. a component of  $M2$  but not of  $M1$ .
  - C. a component of  $MZM$  but not of  $M2$ .
  - D. not a component of  $M1$ ,  $M2$ , or  $MZM$ .
  
5. The largest component of the money supply ( $M1$ ) is:
  - A. currency in bank vaults.
  - B. currency in circulation.
  - C. checkable deposits.
  - D. stock certificates.
  
6. In the United States, the money supply ( $M1$ ) is comprised of:
  - A. coins, paper currency, and checkable deposits.
  - B. currency, checkable deposits, and Series E bonds.
  - C. coins, paper currency, checkable deposits, and credit balances with brokers.
  - D. paper currency, coins, gold certificates, and time deposits.

7. Checkable deposits are classified as money because:
- A. they can be readily used in purchasing goods and paying debts.
  - B. banks hold currency equal to the value of their checkable deposits.
  - C. they are ultimately the obligations of the Treasury.
  - D. they earn interest income for the depositor.

8. Commercial banks and thrift institutions:
- A. differ because thrifts cannot make loans.
  - B. differ because thrifts cannot offer checkable deposits.
  - C. have become less similar in recent years.
  - D. have become increasingly similar in recent years.

9. The value of money varies:
- A. inversely with the price level.
  - B. directly with the volume of employment.
  - C. directly with the price level.
  - D. directly with the interest rate.

Money market mutual fund balances held by businesses	\$100
Money market mutual fund balances held by individuals	220
Currency in banks	10
Currency in circulation	60
Saving deposits, including money market deposit accounts	50
Large (\$100,000 or more) time deposits	180
Small (less than \$100,000) time deposits	80
Checkable deposits	70

10. Refer to the above information. Money supply  $M1$  for this economy is:
- A. \$60.
  - B. \$70.
  - C. \$130.
  - D. \$140.

11. Assuming no other changes, if checkable deposits increase by \$40 billion and currency in circulation decreases by \$40 billion, the:
- A.  $M1$  money supply will decline.
  - B.  $M1$  money supply will not change.
  - C.  $M2$  money supply will decline.
  - D.  $MZM$  money supply will increase.

12. Which of the following statements best describes the twelve Federal Reserve Banks?

- A. They are privately owned and privately controlled central banks whose basic goal is to provide an ample and orderly market for U.S. Treasury securities.
- B. They are privately owned and publicly controlled central banks whose basic function is to minimize the risks in commercial banking in order to make it a reasonably profitable industry.
- C. They are privately owned and publicly controlled central banks whose basic goal is to control the money supply and interest rates in promoting the general economic welfare.
- D. They are privately owned and publicly controlled central banks whose basic goal is to earn profits for their owners.

13. If you place a part of your summer earnings in a savings account, you are using money primarily as a:

- A. medium of exchange.
- B. store of value.
- C. unit of account.
- D. standard of value.

14. Assuming no other changes, if checkable deposits decrease by \$40 billion and balances in money market mutual funds increase by \$40 billion, the:

- A. *M1* money supply will decline and *M2* money supply will remain unchanged.
- B. *M1* and *M2* money supplies will not change.
- C. *M2* and *MZM* money supplies will increase.
- D. *M1*, *M2*, and *MZM* money supplies will decline.

15. Money functions as:

- A. a store of value.
- B. a unit of account.
- C. a medium of exchange.
- D. all of the above.

16. When economists say that money serves as a medium of exchange, they mean that it is:

- A. a way to keep wealth in a readily spendable form for future use.
- B. a means of payment.
- C. a monetary unit for measuring and comparing the relative values of goods.
- D. declared as legal tender by the government.

17. During period of rapid inflation, money may cease to work as a medium of exchange:

- A. unless it has been designated legal tender.
- B. unless it is backed by gold.
- C. it is too scarce for everyone to have enough for transactions.
- D. because people and businesses will not want to accept it in transactions.

18. The basic policy-making body in the U.S. banking system is the:

- A. Federal Open Market Committee (FOMC).
- B. Board of Governors of the Federal Reserve.
- C. Federal Monetary Authority.
- D. Council of Economic Advisers.

19. *MZM* stands for:

- A. money zero maturity.
- B. market zero money.
- C. mutual zero money.
- D. money zero market.

20. To say money is socially defined means that:

- A. money has been defined in a Constitutional amendment.
- B. whatever performs the functions of money extremely well is considered to be money.
- C. the money supply includes all public and private securities purchased by society.
- D. society, acting through Congress, specifies what shall be included in the money supply.

21. *MZM* (money zero maturity) measures the value of:

- A. all financial assets in the system.
- B. all currency in the system, whether held by individuals, businesses, or financial institutions.
- C. all non-interest bearing forms of money.
- D. monetary balances that are immediately available, at zero cost, for household and business transactions.

22. Refer to the above information. Money supply *M2* for this economy is:

- A. \$480.
- B. \$130.
- C. \$490.
- D. \$630.

23. Purchasing common stock by writing a check best exemplifies money serving as a:

- A. store of value.
- B. unit of account.
- C. medium of exchange.
- D. index of satisfaction.

24. Currency held within banks is part of:

- A. the *MZM* definition of the money supply.
- B. the *M2* definition of the money supply.
- C. the *M1* definition of the money supply.
- D. none of the above definitions of the money supply.

25. Paper money (currency) in the United States is issued by the:

- A. United States Mint.
- B. Federal Reserve Banks.
- C. United States Treasury.
- D. national banks.

26. How many commercial banks are now operating in the United States?

- A. about 140,000
- B. about 7,600
- C. about 11,400
- D. about 6,300

27. Which one of the following is true about the U. S. Federal Reserve System?

- A. There are 10 regional Federal Reserve Banks.
- B. The head of the U.S. Treasury also chairs the Federal Reserve Board.
- C. There are seven members of the Federal Reserve Board of Governors.
- D. The Open Market Committee is smaller in size than the Federal Reserve Board.

28. Refer to the above information. Money supply *MZM* for this economy is:

- A. \$480.
- B. \$630.
- C. \$490.
- D. \$530.

29. (Last Word) Major countries in which citizens hold and use large quantities of U.S. dollars are:

- A. Germany, England, and France.
- B. Russia, Argentina, and Poland.
- C. Canada, Australia, and New Zealand.
- D. Egypt, Spain, and Italy.

Answer the next question(s) on the basis of the following list of assets:

- 1. Large (\$100,000 and over) time deposits
- 2. Noncheckable savings deposits
- 3. Currency (coins and paper money)
- 4. Small (under \$100,000) time deposits
- 5. Stock certificates
- 6. Checkable deposits
- 7. Money market deposit accounts
- 8. Money market mutual fund balances held by individuals
- 9. Money market mutual fund balances held by businesses

30. Refer to the above list. The *M1* definition of money comprises item(s):

- A. 6 only.
- B. 3, 4, and 6.
- C. 3 and 6.
- D. 2, 3, and 6.

## Pre-Test Chapter 12 ed17 Key

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|------|-------|-------|-------|-------|-------|
| 1. D | 6. A  | 11. B | 16. B | 21. D | 26. B |
| 2. D | 7. A  | 12. C | 17. D | 22. A | 27. C |
| 3. C | 8. D  | 13. B | 18. B | 23. C | 28. D |
| 4. D | 9. A  | 14. A | 19. A | 24. D | 29. B |
| 5. B | 10. C | 15. D | 20. B | 25. B | 30. C |