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 \( M_2 \) 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 \( M_1 \).
   B. a component of \( M_2 \) but not of \( M_1 \).
   C. a component of \( MZM \) but not of \( M_2 \).
   D. not a component of \( M_1, M_2, \) or \( MZM \).

5. The largest component of the money supply (\( M_1 \)) is:
   A. currency in bank vaults.
   B. currency in circulation.
   C. checkable deposits.
   D. stock certificates.

6. In the United States, the money supply (\( M_1 \)) 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 $M_1$ 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, then:
A. $M_1$ money supply will decline.
B. $M_1$ money supply will not change.
C. $M_2$ 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. $M_1$ money supply will decline and $M_2$ money supply will remain unchanged.
B. $M_1$ and $M_2$ money supplies will not change.
C. $M_2$ and $MZM$ money supplies will increase.
D. $M_1$, $M_2$, 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 $M_2$ 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 $M_2$ definition of the money supply.
C. the $M_1$ 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 \textit{M} \textit{Z} \textit{M} 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 \textit{M} \textit{1} 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

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