

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

- 1) Nicholas is saving money collected from his paper route in order to purchase a new bicycle. His saving represents using money as 1) \_\_\_\_\_  
 A) an unit of account. B) a store of value.  
 C) a medium of exchange. D) none of the above

Component	Amount (billions of dollars)
Currency	235
Checking deposits	570
Savings deposits	416
Traveler's checks	8
Time deposits	1,144
Money market mutual funds	930
Available credit on credit cards	675

- 2) According to the table above, the value of M1 is \_\_\_\_\_ and the value of M2 is \_\_\_\_\_. 2) \_\_\_\_\_  
 A) \$813 billion; \$2490 billion B) \$813 billion; \$3303 billion  
 C) \$805 billion; \$2490 billion D) \$1,488 billion; \$3978 billion
- 3) Liquidity is the 3) \_\_\_\_\_  
 A) ease with which credit cards are accepted as a means of payment.  
 B) degree to which an asset acts as money without a loss of value.  
 C) ease with which an asset can be converted into a means of payment with little loss of value.  
 D) degree to which money can be converted into an asset with little loss of value.
- 4) When banks use specialized resources to monitor borrowers, they are 4) \_\_\_\_\_  
 A) lowering the cost of creating liquidity.  
 B) minimizing the cost of assessing borrowers' creditworthiness.  
 C) lending to only high-risk borrowers.  
 D) pooling risk.
- 5) Pooling of risk occurs when depository institutions 5) \_\_\_\_\_  
 A) make assets more liquid.  
 B) lend to a variety of different borrowers.  
 C) specialize in loaning only to good borrowers.  
 D) bring lenders together.
- 6) Money is created by 6) \_\_\_\_\_  
 A) government taxation. B) banks making loans.  
 C) banks taking in deposits. D) banks paying for depositor's insurance.
- 7) A small commercial bank has \$10,000 in actual reserves, \$60,000 in deposits, and has a 10 percent desired reserve ratio. Its excess reserves are 7) \_\_\_\_\_  
 A) \$4,000. B) \$10,000. C) \$60,000. D) \$50,000.

- 8) Given a desired reserve ratio of 20 percent, a commercial bank that has received a new deposit of \$100 can make additional loans of \_\_\_\_\_
- A) \$80.                                      B) \$400.                                      C) \$0.                                      D) \$20.

University National Bank Balance Sheet

Assets		Liabilities	
Reserves	\$320	Deposits	\$440
Loans	<u>120</u>		<u>        </u>
Total assets	\$440	Total liabilities	\$440

- 9) The above table has the balance of the University National Bank. All figures are in millions of dollars. The desired reserve ratio is 20 percent. What is the value of excess reserves held by the University National Bank? \_\_\_\_\_
- A) \$232 million                                      B) \$120 million                                      C) \$320 million                                      D) \$760 million

- 10) The above table has the balance of the University National Bank. All figures are in millions of dollars. The desired reserve ratio is 20 percent. What would be the total increase in loans at this bank if all excess reserves were loaned out? \_\_\_\_\_
- A) \$232 million                                      B) \$600 million                                      C) \$1,160 million                                      D) \$0

- 11) In the short run, which of the following actions lower the interest rate? \_\_\_\_\_
- A) a decrease in the quantity of money                                      B) an increase in the demand for money  
 C) a decrease in the demand for money                                      D) a decrease in bond prices

- 12) The velocity of circulation is \_\_\_\_\_
- A) constant.  
 B) the changes in the purchasing power of money over a given time period.  
 C) the average number of times a dollar of money is used in a year to buy goods and services in GDP.  
 D) the rate of change of the GDP deflator.

- 13) Which of the following equations represents the equation of exchange? \_\_\_\_\_
- A)  $MV = PY$                                       B)  $PM = VY$                                       C)  $MY = PV$                                       D)  $M = VP/Y$

- 14) If velocity is 6 and the quantity of money is \$2 trillion, what is nominal GDP? \_\_\_\_\_
- A) \$3 trillion                                      B) \$333 billion                                      C) \$12 trillion                                      D) \$6 trillion

**Write your answer in the space provided or on a separate sheet of paper.**

- 15) If a bank receives an additional deposit of \$50,000 and the desired reserve ratio is 20 percent, what is the amount of new loans the bank can make?

- 16) The quantity of money is \$1 billion, the price level is 1.10, and real GDP is \$10 billion. What is the velocity of circulation?