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

1) A person’s checking deposits are part of her
   A) money.
   B) income.
   C) wealth.
   D) all of the above.
   E) only A and C of the above.

2) For a commodity to function effectively as money it must be
   A) divisible into relatively small units.
   B) widely accepted.
   C) easily standardized, making it easy to ascertain its value.
   D) all of the above.
   E) only A and B of the above.

3) If there are three goods in a barter economy, one needs to know three prices in order to exchange one good for another. If, however, there are six goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.
   A) 9  B) 15  C) 6  D) 12

4) Of the following assets, the most liquid is
   A) traveler’s checks.
   B) savings bonds.
   C) certificates of deposit.
   D) stocks.
   E) corporate Bonds.

5) If the level of prices falls by 50 percent, the value of money
   A) doubles.
   B) remains unchanged.
   C) falls by 100%.
   D) rises by 50%.
   E) falls by 50%.
6) The evolution of the payments system from barter to precious metals, then to fiat money, then to checks can best be understood as a consequence of
   
   A) innovations that allowed individuals to escape oppressive taxes.
   B) the fact that precious metals were not generally acceptable.
   C) the fact that paper more costly to produce than precious metals.
   D) the fact that precious metals were difficult to carry and transport.
   E) the fact that paper money is less accepted than checks.

7) A payments system based primarily on checks has the following disadvantages:
   
   A) Checks take time to move through the check-clearing system.
   B) Checks are costly to process.
   C) Checks are costly to transport.
   D) All of the above.
   E) Only A and B of the above.

8) Which of the following is not included in the measure of M1?
   
   A) Traveler’s checks   B) Gold coins issued by the U.S. Treasury
   C) Currency            D) Demand deposits

9) Which of the following is included in M2 but not in M1?
   
   A) NOW accounts
   B) Currency
   C) Money market mutual fund shares (noninstitutional)
   D) Gold coins issued by the U.S. Treasury
   E) Demand deposits

10) If an individual moves money from a small-denomination time deposit to a demand deposit account,
    
    A) M1 increases and M2 stays the same.
    B) M1 stays the same and M2 increases.
    C) M1 stays the same and M2 stays the same.
    D) M1 increases and M2 decreases.
Answer Key
Testname: PRACTICE_CH3

1) E
2) D
3) B
4) A
5) A
6) D
7) D
8) B
9) C
10) A