1. **Multiple Choice**

1. Which of the following statements about M1, M2, and M3 is *not* accurate?
   
   A. Money market deposit accounts are included in M2 but retail money market mutual funds are not.
   B. Large denomination deposit accounts are included in M3 but not included in M2.
   C. M3 includes M2 and M2 includes M1.
   D. M1 is the most liquid definition of money.

2. Which one of the following possesses the least liquidity?
   
   A. money market deposit account
   B. currency
   C. a checking account
   D. corporate bonds

3. Which one of these best describes the most important role of a central bank?
   
   A. sets fiscal policy
   B. lends money to consumers
   C. lends money to businesses
   D. sets monetary policy

4. Which one of the following is *not* true regarding the creation of checking accounts?
   
   A. Banks create checking accounts when they buy bonds.
   B. Checking accounts do not disappear when bank loans are repaid.
   C. The ability of banks to extend credit is limited by the amount of their reserves.
   D. Banks create checking accounts when they extend credit.

5. Which one of the following best describes the relationship between the supply of money and the volume of spending?
   
   A. While changes in the supply of money affect inflation, they do affect the flow of spending even if velocity is not constant.
   B. The flow of spending depends not only on the supply of money but also its rate of turnover.
   C. The flow of spending does *not* depend on the supply of money, only on its rate of turnover.
   D. The flow of spending depends only on the supply of money and not the velocity of money.
6. Which of the following best describes how changes in the money supply might influence people’s spending by altering their liquidity?
   A. An increase in the money supply alters the public’s portfolio of total assets (making it less liquid) encouraging them to either buy more securities, which in turn lowers interest rates, which in turn encourages more spending, or to buy more real assets increasing spending directly.
   B. An increase in the money supply alters the public’s portfolio of total assets (making it too liquid) encouraging them to buy more real assets which implies an increase in spending.
   C. An increase in the money supply alters the public’s portfolio of total assets (making it too liquid) encouraging them to buy more securities, which in turn lowers interest rates, which in turn encourages more spending.
   D. An increase in the money supply alters the public’s portfolio of total assets (making it too liquid) encouraging them to either buy more securities, which in turn lowers interest rates, which in turn encourages more spending, or to buy more real assets increasing spending directly.

7. If GDP is $9,000 billion, the rate of inflation is 10% and the money supply is $1,500 billion, then the velocity of money is __.
   A. 6
   B. 6.6
   C. 5.45
   D. 900

8. The Federal Reserve controls the money supply through its ability to __.
   A. set commercial bank profit margins
   B. control the velocity of money
   C. print currency
   D. manipulate bank reserves

9. Which of the following best describes the historical relationship between money supply growth and inflation?
   A. Money supply growth appears to be positively correlated with inflation although the relationship is not perfect.
   B. There appears to be no relationship between money supply growth and inflation.
   C. Money supply growth is always significantly less than inflation.
   D. Money supply growth always exceeds inflation by a significant amount.

10. When hyperinflation occurs, money becomes a less efficient medium of exchange because money ceases to be a reliable __.
    A. investment
    B. store of value
    C. source of income
    D. unit of account
II. True or False

11. Savers are security holders and borrowers are security issuers.

12. Lack of information about borrowers and lenders may enhance the flow of funds from savers to spenders.

13. Direct finance refers to the use by corporations of internally generated funds for investment expenditures.

14. Primary securities are those issues by corporations with the highest credit rating.

15. U.S. government securities are liabilities of the Federal Reserve banks.

16. The money market is the market for the demand deposits of commercial banks, that is, the market for money.

17. Short-term securities are generally more liquid than long-term securities.

18. Individuals are some of the most important participants in the money market.

19. Treasury bills are an example of a zero-coupon debt instrument.

20. All securities share a common characteristic in that they represent a claim to a future stream of payments, often called expected future cash flows.

21. Common stockholders get a fixed dividend and they are entitled to it before preferred stockholders receive any dividend.

22. Options and futures contracts derive their value from the underlying asset on which these contracts are written.

23. The buyer of a futures contract is called the short, whereas the seller is called the long.

24. Intermediaries acquire funds by selling their own liabilities to saver-lenders.

25. Intermediaries make a profit on the differential between the rate of interest they charge saver-lenders and the rate of interest they pay borrower-spenders.

26. Some mutual funds specialize in mortgages.

27. Mutual savings banks and savings and loan associations are not allowed to make consumer loans.

28. Pension and retirement funds differ from life insurance companies since they are concerned mostly with liquidity, and life insurance companies are concerned mostly with long-term investments.
29. Pension and retirement funds are very risky financial institutions because they are unable
to predict how much they will have to pay out in pensions for many years into the
future.

30. Buying a share in a mutual fund is riskier than opening a savings account at a savings-
and-loan.