1. List the three functions of money.
Medium of exchange, store of value, unit of account

2. Briefly define liquidity.
Ease with which someone can convert assets for currency/cash

3. What makes an economic exchange difficult in a barter economy?
Mutual coincidence of wants

4. A. What is the equation for the Quantity Theory of Money?
MV = PY

B. Using that equation, how would you find the formula for money’s velocity?
V = (PY)/M

5. What is the chief function of financial markets?
Bring saver/lenders and borrower/spenders together, facilitate exchange between the two groups

6. True/False: You can buy government-issued stocks.
False, you can’t own part of the government

7. A. What is the special name given to government-issued bonds from state and local governments?
Municipal bonds

B. What makes these bonds different from other bonds we’ve studied?
They are tax-exempt

8. What differentiates the capital market from the money market?
Capital market = securities mature after a year
Money market = securities mature under a year

9. List three examples of financial institutions.
Commercial banks, credit unions, savings and loan associations, money market mutual funds, finance companies, retirement/pension companies, life insurance companies

10. If you borrowed $200 from a bank and had to pay back $220 at the end of the year, what is the simple interest rate on that loan?
P * r * t = I
$200 * r * 1 = $20
$200r = $20
r = $20/$200, r = 0.10 = 10%