Name: ___________________________ Date: _____________

1. Money's liquidity refers to the ease with which:
   A) coins can be melted down.
   B) illegally obtained money can be laundered.
   C) loans can be floated.
   D) money can be converted into goods and services.

2. In a country on a gold standard, the quantity of money is determined by the:
   A) government.
   B) central bank.
   C) amount of gold.
   D) buying and selling of government securities.

3. The definition of the transactions velocity of money is:
   A) money multiplied by prices divided by transactions.
   B) transactions divided by prices multiplied by money.
   C) money divided by prices multiplied by transactions.
   D) prices multiplied by transactions divided by money.

4. If there are 100 transactions in a year and the average value of each transaction is $10, then if there is $200 of money in the economy, transactions velocity is ______ times per year.
   A) 0.2
   B) 2
   C) 5
   D) 10

5. If the transactions velocity of money remains constant while the quantity of money doubles, the:
   A) price of the average transaction must double.
   B) number of transactions must remain constant.
   C) price of the average transaction multiplied by the number of transactions must remain constant.
   D) price of the average transaction multiplied by the number of transactions must double.

6. The quantity equation, viewed as an identity, is a definition of the:
   A) quantity of money.
   B) quantity of transactions.
   C) price level.
   D) transactions velocity of money.

7. If the demand for real money balances is proportional to real income, velocity will:
   A) increase as income increases.
   B) increase as income decreases.
   C) vary directly with the interest rate.
   D) remain constant.

8. Percentage change in *P* is approximately equal to the percentage change in :
   A) *M*.
   B) *M* minus percentage change in *Y*.
   C) *M* minus percentage change in *Y* plus percentage change in velocity.
   D) *M* minus percentage change in *Y* minus percentage change in velocity.

9. The right of seigniorage is the right to:
   A) levy taxes on the public.
   B) borrow money from the public.
   C) draft citizens into the armed forces.
   D) print money.

10. The real interest rate is equal to the:
    A) amount of interest that a lender actually receives when making a loan.
    B) nominal interest rate plus the inflation rate.
    C) nominal interest rate minus the inflation rate.
    D) nominal interest rate.

11. If the nominal interest rate is 1 percent and the inflation rate is 5 percent, the real interest rate is:
    A) 1 percent.
    B) 6 percent.
    C) -4 percent.
    D) -5 percent.

12. The opportunity cost of holding money is the:
    A) nominal interest rate.
    B) real interest rate.
    C) rate of inflation.
    D) prevailing Treasury bill rate.

13. The real return on holding money is:
    A) the real interest rate.
    B) minus the real interest rate.
    C) the inflation rate.
    D) minus the inflation rate.

14. The general demand function for real balances depends on the level of income and the:
    A) real interest rate.
    B) nominal interest rate.
    C) rate of inflation.
    D) price level.

15. The costs of reprinting catalogs and price lists because of inflation are called:
    A) menu costs.
    B) shoeleather costs.
    C) variable yardstick costs.
    D) fixed costs.

16. Inflation ______ the variability of relative prices and ______ allocative efficiency.
    A) increases; increases
    B) increases; decreases
    C) decreases; decreases
    D) decreases; increases

17. In the case of an unanticipated inflation:
    A) creditors with an unindexed contract are hurt because they get less than they expected in real terms.
    B) creditors with an indexed contract gain because they get more than they contracted for in nominal terms.
    C) debtors with an unindexed contract do not gain because they pay exactly what they contracted for in nominal terms.
    D) debtors with an indexed contract are hurt because they pay more than they contracted for in nominal terms.

18. An example of a real variable is the:
    A) dollar wage a person earns.
    B) quantity of goods produced in a year.
    C) price level.
    D) nominal interest rate.

19. An example of a nominal variable is the:
    A) money supply.
    B) quantity of goods produced in a year.
    C) relative price of bread.
    D) real wage.

20. The classical dichotomy:
    A) cannot hold if money is "neutral."
    B) is said to hold when the values of real variables can be determined without any reference to nominal variables or the existence of money.
    C) fully describes the world in which we live, especially in the short run.
    D) arises because money depends on the nominal interest rate.

21. If consumption depends positively on the level of real balances, and real balances depend negatively on the nominal interest rate in a neoclassical model, then:
    A) the classical dichotomy still holds.
    B) a rise in money growth leads to a fall in consumption and a rise in investment.
    C) a rise in money growth leads to a rise in consumption and a fall in investment.
    D) a rise in money growth leads to a rise in both consumption and investment.

22. Assume that the demand for real money balance (M/P) is $M/P = 0.6Y - 100i$, where Y is national income and i is the nominal interest rate. The real interest rate r is fixed at 3 percent by the investment and saving functions. The expected inflation rate equals the rate of nominal money growth.
    a. If Y is 1,000, M is 100, and the growth rate of nominal money is 2 percent, what must i and P be?

23. If the number of employed workers equals 200 million and the number of unemployed workers equals 20 million, the unemployment rate equals _____ percent (rounded to the nearest percent).
    A) 0
    B) 9
    C) 10
    D) 20

24. One reason for unemployment is that:
    A) it takes time to match workers and jobs.
    B) all jobs are identical.
    C) the labor market is always in equilibrium.
    D) a laid-off worker can immediately find a new job at the market wage.

25. Frictional unemployment is unemployment caused by:
    A) wage rigidity.
    B) minimum-wage legislation.
    C) the time it takes workers to search for a job.
    D) clashes between the motives of insiders and outsiders.

26. Sectoral shifts:
    A) lead to wage rigidity.
    B) explain the payment of efficiency wages.
    C) depend on the level of the minimum wage.
    D) make frictional employment inevitable.

27. Unemployment insurance increases the amount of frictional unemployment by:
    A) making workers more frantic in their search for new jobs.
    B) inducing workers to accept the first job offer that they receive.
    C) making employers more reluctant to lay off workers.
    D) softening the economic hardship of unemployment.

28. Wage rigidity:
    A) forces labor demand to equal labor supply.
    B) is caused by sectoral shifts.
    C) prevents labor demand and labor supply from reaching the equilibrium level.
    D) increases the rate of job finding.

29. The unemployment resulting from wage rigidity and job rationing is called _____ unemployment.
    A) frictional
    B) structural
    C) minimum-wage
    D) insider

30. The minimum wage:
    A) is usually about 75 percent of the average wage earned in manufacturing.
    B) raises the wages of highly skilled workers.
    C) encourages master workers to take on apprentices.
    D) has its greatest impact on teenage unemployment.

31. Economists who have studied minimum-wage laws in the United States find that a 10 percent increase in the minimum wage increases teenage unemployment by about:
    A) 10 to 30 percent.
    B) 5 percent.
    C) 1 to 3 percent.
    D) 0 percent.

32. When outsiders have a greater role than do insiders in the wage bargaining process, the negotiated wage is likely to be ______ the equilibrium wage.
    A) much greater than
    B) much less than
    C) much closer to
    D) about twice

33. By paying efficiency wages, firms contribute to higher wait unemployment because they:
    A) increase the wage bill.
    B) make workers more productive.
    C) keep the wage below the equilibrium level.
    D) keep the wage above the equilibrium level.

Answer Key

1. D
2. C
3. D
4. C
5. D
6. D
7. D
8. C
9. D
10. C
11. C
12. A
13. D
14. B
15. A
16. B
17. A
18. B
19. A
20. B
21. B
22. a. i = 5 percent, P = 1
23. B
24. A
25. C
26. D
27. D
28. C
29. B
30. D
31. C
32. C
33. D