

BPE MAC1 Macroeconomics 1 – Spring Semester 2011

**Tutorial Session 5 - 25.03.2011, 10:15-11:00 a.m.**

**Multiple Choice**

*Identify the choice that best completes the statement or answers the question.*

- \_\_\_ 1. In order for something to function well as a medium of exchange, it must be
- issued by a central government.
  - readily and widely accepted in trade.
  - backed by a valuable commodity.
  - All of the above are correct.
- \_\_\_ 2. If a society chooses to use fiat money, it
- must guarantee the convertibility of its currency into gold.
  - give its central bank independence.
  - cannot make use of a banking system.
  - must have a mechanism for regulating the quantity of money in the economy.
- \_\_\_ 3. Roberto won a lottery prize of €1 million. He put the money in the bank to save it for his daughter's university education. For Roberto, money was functioning primarily as a
- unit of account.
  - store of value.
  - means of payment.
  - type of short-term loan.
- \_\_\_ 4. Which one of the following is not included in the M1 money stock?
- Deposits with maturity up to two years.
  - Overnight deposits.
  - Currency in circulation.
  - None of the above - they are all included in M1.
- \_\_\_ 5. The interest rate at which the central bank lends on a short-term basis to the banking system is the
- bank funding rate.
  - refinancing rate.
  - reserve requirement.
  - prime rate.
- \_\_\_ 6. The price level that equates the quantity of money demanded with the quantity of money supplied is called the
- equilibrium price level.
  - natural price level.
  - relative price level.
  - commodity price level.
- \_\_\_ 7. According to the equation of exchange, the quantity of money multiplied by the velocity of money equals
- nominal GDP.
  - real GDP.
  - inflation-adjusted total output in the economy.
  - the number of times each unit of money is spent on goods and services.

- \_\_\_\_\_ 8. In the quantity theory of money
- a. prices are rigid.
  - b. both velocity of money and real output are variable.
  - c. changes in the money supply cause changes in velocity of money.
  - d. the velocity of money is assumed to be constant.
- \_\_\_\_\_ 9. The irrelevance of monetary changes for real variables is called
- a. the classical dichotomy.
  - b. the equation of exchange.
  - c. monetary neutrality.
  - d. hyperinflation.
- \_\_\_\_\_ 10. Hyperinflation occurs because governments want to \_\_\_\_\_ spending but they ignore the fact that increasing the money supply will \_\_\_\_\_.
- a. decrease, require greater government spending
  - b. increase, also increase the price level
  - c. increase, put upward pressure on interest rates
  - d. decrease, put downward pressure on interest rates

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**Answer Section**

**MULTIPLE CHOICE**

1. ANS: B  
readily and widely accepted in trade.

PTS: 1

2. ANS: D  
must have a mechanism for regulating the quantity of money in the economy.

PTS: 1

3. ANS: B  
store of value.

PTS: 1

4. ANS: A  
Deposits with maturity up to two years.

PTS: 1

5. ANS: B  
refinancing rate.

PTS: 1

6. ANS: A  
equilibrium price level.

PTS: 1

7. ANS: A  
nominal GDP.

PTS: 1

8. ANS: D  
the velocity of money is assumed to be constant.

PTS: 1

9. ANS: C  
monetary neutrality.

PTS: 1

10. ANS: B  
increase, also increase the price level

PTS: 1