

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

- 1) Money, financial institutions, and financial markets in the United States can have a major impact on 1) _____
- A) economic well being of other countries besides the United States.
 - B) the outcome of political elections.
 - C) the kinds of goods and services that are produced.
 - D) all of the above.
 - E) only A and B of the above.
- 2) Compared to interest rates on long-term U.S. government bonds, interest rates on three-month Treasury bills fluctuate _____ and are _____ on average. 2) _____
- A) more; lower
 - B) more; higher
 - C) less; higher
 - D) less; lower
- 3) A rising stock market index due to higher share prices 3) _____
- A) increases people's wealth, but is unlikely to increase their willingness to spend.
 - B) decreases the amount of funds that business firms can raise by selling newly-issued stock.
 - C) increases people's wealth and as a result may increase their willingness to spend.
 - D) both A and C of the above.
 - E) both B and C of the above.
- 4) Banks are important to the study of money and the economy because they 4) _____
- A) provide a channel for linking those who want to save with those who want to invest.
 - B) have been a source of rapid financial innovation that is expanding the alternatives available to those wanting to invest their money.
 - C) are the only important financial institution in the U.S. economy.
 - D) each of the above.
 - E) only A and B of the above.
- 5) Money is defined as 5) _____
- A) bills of exchange.
 - B) anything that is generally accepted in payment for goods and services or in the repayment of debt.
 - C) a risk-free repository of spending power.
 - D) all of the above.
 - E) only A and B of the above.

- 6) Every recession in the United States since 1900 has been preceded by a decline in _____
A) the rate of money growth. B) the level of sunspot activity.
C) the hemline of women's fashions. D) the money stock.
- 7) A rapid rate of growth of money results in _____
A) depression.
B) constant prices.
C) inflation.
D) deflation.
E) recession.
- 8) If ten years ago the prices of the items bought last month by the average consumer would have been much lower, then one can likely conclude that _____
A) the average rate of money growth for this ten-year period has been positive.
B) the aggregate price level has risen during this ten-year period.
C) the average inflation rate for this ten-year period has been positive.
D) all of the above.
- 9) Budget deficits are important because _____
A) deficits always cause interest rates to fall.
B) deficits always cause prices to fall.
C) banks would not exist without deficits.
D) deficits cause bank failures.
E) deficits can result in higher rates of monetary growth.
- 10) When the total value of final goods and services is calculated using current prices, the resulting measure is referred to as _____
A) real GDP. B) the GDP deflator.
C) the index of leading indicators. D) nominal GDP.

Answer Key

Testname: PRACTICE_CH1

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