

Name _____

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Money and Banking

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Answer all of the multiple choice questions by selecting the alternative that best completes each sentence on your answer sheet as well as by circling the appropriate answer on your question sheet. Each correct answer is worth 2.5 points.

1. Which of the following is NOT a significant cost that a barter system imposes on an economy?
 - a) Many prices must be maintained for each good.
 - b) Only agricultural goods may be traded.
 - c) Specialization of labor is hindered.
 - d) The costs arising from the problem of finding two people who each want what the other produces.

2. When economists refer to the role of money as a store of value, they mean that
 - a) money never loses its value, unlike other assets.
 - b) money allows value to be stored easily.
 - c) the value of money falls only when the quantity of money in circulation falls.
 - d) the value of money falls only when the quantity of money in circulation rises.

3. The attribute that distinguishes money from other assets is that only money
 - a) retains its value during times of inflation.
 - b) is counted in determining the size of an individual's wealth.
 - c) serves as a medium of exchange.
 - d) may be used as collateral for a bank loan.

4. The experience of Argentina in the late 1980s illustrates the point that
 - a) to be acceptable as a medium of exchange, households and firms must believe that money has value and will be acceptable.
 - b) any money not backed by gold will eventually become worthless.
 - c) even a country with very low inflation rates may have severe economic problems.
 - d) there is only a very slight link between rates of growth of the money supply and the inflation rate.

5. Fiat money
 - a) is money that would have no value if it were not usable as money.
 - b) is illegal in most advanced, industrial countries.
 - c) is usually some type of precious metal.
 - d) will generally be accepted in trade for less than its face value.