

ECON 135, Money and Banking

Spring, 2009

Midterm exam

White version

Answers highlighted in **boldface**.

1. Which of these would be called a *normative* statement?
  - (a) Raising tax rates on high-income people will reduce saving and investment
  - (b) Tax rates should be raised on high-income people**
  - (c) Raising tax rates on high-income people will result in a decrease in the tax revenue paid by those people.
  - (d) Both (a) and (b) are normative statements
  - (e) (a), (b) and (c) are all normative statements
2. Which of these statements is correct?
  - (a) A positive statements must necessarily be true. Otherwise it would be a normative statement.
  - (b) Positive statements can be true, false, or undecided.**
3. Question about stocks and flows. Which is true?
  - (a) Your income is a stock; your wealth is a flow.
  - (b) Your income is a flow; your wealth is a flow.
  - (c) Your income is a stock; your wealth is a stock.
  - (d) Your income is a flow; your wealth is a stock.**
4. What is wealth?
  - (a) One's net worth, accounted in monetary terms
  - (b) The total of one's money holdings and investments
  - (c) Whatever one desires**
5. What is efficiency?
  - (a) Output as a percentage of input
  - (b) One's ability to get the most of what one wants from what one has**

6. Which of these statements is true of all economic goods?
- (a) **They are always scarce; sometimes in shortage or surplus.**
  - (b) They are sometimes scarce; always in either shortage or surplus.
  - (c) They are always scarce; always in either shortage or surplus.
7. Who displays a lower rate of time preference?
- (a) Someone who spends all his income on current consumption and gives no thought to the future.
  - (b) **Someone who is a fanatical saver, spending as little as possible on current consumption.**
8. Which phrase do we use to describe the problem faced by would-be traders in a barter economy?
- (a) **The double coincidence of wants**
  - (b) Reverse inequality of value
  - (c) Scarcity
9. What do we call the fee charged for minting bullion into coins?
- (a) Seignorage
  - (b) **Brassage**
  - (c) Coinage
10. What commodity did the Yap Islanders once use as money?
- (a) Copper
  - (b) Cattle
  - (c) Women
  - (d) **Boulders**
  - (e) Pomegranates
11. Which of these are examples of non-monetary exchange that take place in our advanced economy?
- (a) Provision of health insurance for employees of business firms
  - (b) Trade-in of used cars by new-car purchasers

- (c) “Markets” for dating, sex and marriage (usually)
  - (d) (b) and (c)
  - (e) (a), (b) and (c) are all examples of non-monetary exchange**
12. What is the definition of “specie?”
- (a) A means of classifying insects
  - (b) Any commodity used as money
  - (c) Gold and silver**
13. Which of these functions does money serve?
- (a) Unit of account
  - (b) Medium of exchange
  - (c) Store of value
  - (d) (a) and (b)
  - (e) (a), (b) and (c)**
14. Which of these is the defining characteristic of money?
- (a) Unit of account
  - (b) Medium of exchange**
  - (c) Store of value
15. What is the price of money?
- (a) Its purchasing power**
  - (b) The price level
  - (c) The average interest rate
16. What is the relationship between the price level and the purchasing power of money?
- (a) They are equal
  - (b) They are reciprocals**
  - (c) Each is the negative of the other
17. What units do we ascribe to the price level and the purchasing power of money?

- (a) Purchasing power: dollars per basket of goods and service; price level: baskets of goods and services per dollar.
  - (b) Price level: dollars per basket of goods and service; purchasing power: baskets of goods and services per dollar.**
  - (c) Both are expressed in dollars per basket of goods and services.
  - (d) Both are expressed in basket of goods and services per dollar.
18. Recall the equation of exchange:  $MV = Py$ . What does the difference form of the equation predict about a situation where the money stock remains unchanged, the velocity of money is unchanged, and real output rises by 5%?
- (a) The price level would rise by 5%
  - (b) The price level would fall by 5%**
  - (c) The effect on the price level cannot be estimated
19. If employment generally rises at Christmastime, what can we say about the unadjusted and seasonally-adjusted rates of unemployment during this time?
- (a) Unadjusted unemployment will be lower than seasonally-adjusted unemployment.**
  - (b) Unadjusted unemployment will be higher than seasonally-adjusted unemployment.
20. Which of these is true?
- (a) Real statistics are adjusted for price inflation; nominal statistics are not.**
  - (b) Nominal statistics are adjusted for price inflation; real statistics are not.
21. Suppose the government stands ready to exchange 16 oz. of silver for one oz. of gold in a situation where the market ratio is 15 to 1. What does Gresham's law say about this situation?
- (a) Silver will continue to circulate as money; gold will disappear from circulation.
  - (b) Gold will continue to circulate as money; silver will disappear from circulation.**

22. Which statement defines fiat money?
- (a) Money whose value is decreed by the government
  - (b) Money whose value is not directly related to any commodity**
23. What benefits accrued when factors began using bills of exchange in trades between Colonial American growers and British merchants?
- (a) They earned profits for themselves
  - (b) They reduced transaction costs by obviating the need to transport money across the ocean
  - (c) They providing immediate payment to growers
  - (d) All of the above**
24. Which phrase best describes “the velocity of money?”
- (a) The speed with which checks are cleared
  - (b) The average number of times a dollar is spent in a given year**
  - (c) The speed with which worn-out bills are replaced
25. What is the price of loanable funds? (“Bonds” in quotes refers to debt and equity securities collectively.)
- (a) The purchasing power of money
  - (b) The average market price of “bonds.”
  - (c) The average interest rate on “bonds.”**
26. In the market for loanable funds shows who is doing what?
- (a) Savers demand loanable funds; borrowers supply loanable funds
  - (b) Savers supply loanable funds; borrowers demand loanable funds**
27. Which is true of a corporate balance sheet?
- (a) Liabilities plus assets equal shareholder equity
  - (b) Liabilities minus assets equal shareholder equity**
  - (c) Assets minus liabilities equal shareholder equity

28. True or false: Amazon.com was technically insolvent for several years after it started up.
- (a) **True**
  - (b) False
29. Which of these people can be held liable for the debts of the business firm of which they are part owners?
- (a) Stockholders of a corporation
  - (b) **Partners in a partnership**
  - (c) Limited partners in a limited partnership
  - (d) (b) and (c)
  - (e) None of the above
30. Which of these is a financial intermediary?
- (a) A commercial bank such as Wells Fargo
  - (b) A stock brokerage such as Charles Schwab
  - (c) A company that sells mutual funds and exchange-traded funds, such as Vanguard
  - (d) All of these are financial intermediaries
  - (e) **(a) and (c) are financial intermediaries**
31. Which describes the difference between an open-end mutual fund and a closed-end mutual fund?
- (a) Investors can always buy or sell shares of open-end mutual funds directly from the fund companies, and the market price of such funds may differ from their net asset value.
  - (b) Investors can always buy or sell shares of closed-end mutual funds directly from the fund companies, and the market price of such funds is the same as their net asset value.
  - (c) Investors cannot buy or sell shares of open-end mutual funds directly from the fund companies,<sup>1</sup> and the market price of such funds may differ from their net asset value.

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<sup>1</sup>Disregarding the fund's initial public offering

- (d) **Investors cannot buy or sell shares of closed-end mutual funds directly from the fund companies,<sup>1</sup> and the market price of such funds may differ from their net asset value.**
32. If a corporation experiences financial difficulty and perhaps declares bankruptcy, what is the order of the claims of these classes of people on the corporation's assets?
- (a) The common stockholders come first, followed by the preferred shareholders and then the bondholders.
  - (b) The bondholders come first, followed by the common stockholders and then the preferred stockholders.
  - (c) The preferred stockholders come first, followed by the common stockholders, and then the bondholders.
  - (d) **The bondholders come first, followed by the preferred stockholders and then the common stockholders.**
33. In each year since the 1960's, the national debt has increased by more than the reported federal deficit. Why?
- (a) Because the Treasury securities held by the Social Security Trust Fund and other Trust Funds are not counted as part of the national debt.
  - (b) Because the net yearly purchases of Treasury securities by the Trust Funds are counted as part of the deficit.
  - (c) **Because the Treasury securities held by the Social Security Trust Fund and other Trust Funds are counted as part of the national debt while their net yearly purchases are not counted as part of the deficit.**

34. Using the GDP deflator figures shown here, compute the 1959 bus fare, which was 20 cents, in 2004 dollars. Also compute the 2004 bus fare, \$1.50, in 1959 dollars.

(a) **1959 bus fare \$1.05 in 2004 dollars; 2004 bus fare \$0.29 in 1959 dollars**

(b) 1959 bus fare \$1.05 in 2004 dollars; 2004 bus fare \$0.45 in 1959 dollars

(c) 1959 bus fare \$4.15 in 2004 dollars; 2004 bus fare \$0.29 in 1959 dollars

(d) 1959 bus fare \$4.15 in 2004 dollars; 2004 bus fare \$1.05 in 1959 dollars

35. What do these calculations say about the change in the real bus fare between 1959 and 2004?

(a) **It has risen**

(b) It has fallen

(c) The calculations imply contradictory answers

1959	20.751	1982	62.726
1960	21.041	1983	65.207
1961	21.278	1984	67.655
1962	21.569	1985	69.713
1963	21.798	1986	71.250
1964	22.131	1987	73.196
1965	22.535	1988	75.694
1966	23.176	1989	78.556
1967	23.893	1990	81.590
1968	24.913	1991	84.444
1969	26.149	1992	86.385
1970	27.534	1993	88.381
1971	28.911	1994	90.259
1972	30.166	1995	92.106
1973	31.849	1996	93.852
1974	34.725	1997	95.414
1975	38.002	1998	96.472
1976	40.196	1999	97.868
1977	42.752	2000	100.000
1978	45.757	2001	102.399
1979	49.548	2002	104.187
1980	54.043	2003	106.305
1981	59.119	2004	109.099