

1. Money is
  - a. the same as income.
  - b. anything that is generally accepted as a medium of exchange.
  - c. the value of all coins and currency in circulation at any time.
  - d. all of the above.
  
2. Dena won \$10 000 at a bingo game. She deposits her \$10 000 winnings into a money market fund so that she can use the money next year to pay her tuition. This is an example of money serving as
  - a. a unit of account.
  - b. a store of value.
  - c. a medium of exchange.
  - d. an investment good.
  
3. Floral Plus, a wholesale supplier of real and silk flowers, has 200 different products in inventory. Floral Plus reports its inventory is worth \$400 000. This is an example of using money as
  - a. a medium of exchange.
  - b. a store of value.
  - c. a standard of deferred payment.
  - d. a unit of account.
  
4. An item designated as money that is intrinsically worthless is
  - a. fiat money.
  - b. precious metals.
  - c. barter items.
  - d. commodity money.
  
5. Money that a government has required to be accepted in settlement of debts is
  - a. legal tender.
  - b. commodity money.
  - c. barter money.
  - d. currency value.
  
6. Currency held outside banks + demand deposits =
  - a. M1.
  - b. M2.
  - c. M3.
  - d. L.
  
7. Gresham's Law refers to the tendency
  - a. for good money to drive out bad.
  - b. for bad money to drive out good.
  - c. for counterfeit money to drive out fiat money.
  - d. for fiat money to drive out counterfeit money.
  
8. Which of the following is the best example of a near money?
  - a. a dollar bill
  - b. a valuable painting
  - c. term deposits
  - d. chequing deposits
  
9. Assume the banking system is closed. The desired reserve ratio is 25%. If a new deposit of \$10 000 is made, total deposits can increase by
  - a. \$10 000.
  - b. \$25 000.
  - c. \$40 000.
  - d. \$50 000.

10. Which of the following represents an action by the Bank of Canada which is designed to decrease the money supply?
  - a. buying government securities in the open market
  - b. a transfer of government funds from private banks to the Bank of Canada
  - c. a decrease in federal spending
  - d. a decrease in the Bank rate
  
11. An open market purchase of securities by the Bank of Canada results in \_\_\_\_\_ in reserves and \_\_\_\_\_ in the supply of money.
  - a. an increase; a decrease
  - b. an increase; an increase
  - c. a decrease; a decrease
  - d. a decrease; an increase
  
12. Assume there is no leakage from the banking system and that all private banks hold an amount of reserves to meet their desired reserve ratio of 25%. If the Bank of Canada buys \$5 million worth of government securities from the public, the change in the money supply will be
  - a. -\$20 million.
  - b. -\$12.5 million.
  - c. \$12.5 million.
  - d. \$20 million.
  
13. The money supply has increased from \$100 million to \$110 million. Which of the following could have caused this increase?
  - a. The Bank of Canada sold government securities to the public.
  - b. Consumers who were holding money outside the banking system deposit this money to buy government securities.
  - c. The Bank of Canada increased the Bank rate.
  - d. Private banks began to hold excess reserves.
  
14. If the Bank of Canada sets the money supply independent of the interest rate, then the money supply curve is
  - a. upward sloping.
  - b. downward sloping.
  - c. vertical.
  - d. horizontal.

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**T Account for Second National Bank**

| <b>Assets</b> |     | <b>Liabilities</b> |           |
|---------------|-----|--------------------|-----------|
| Reserves      | 50  | _____              | Deposits  |
| Loans         | 350 | _____              | Net Worth |
| Total         | 400 | _____              | Total     |

**Figure 11.2**

15. **Refer to Figure 11.2.** Second National Bank has a desired reserve ratio of 20%. Second National Bank has its desired amount of reserves and has no excess reserves. Second National Bank's deposits are
  - a. 200.
  - b. 250.
  - c. 350.
  - d. 400.

16. **Refer to Figure 11.2.** Second National Bank has a desired reserve ratio of 20%. Second National Bank has its desired amount of reserves and has no excess reserves. Second National Bank's net worth
- is 150.
  - is 250.
  - is 350.
  - cannot be determined from this information.
17. **Refer to Figure 11.2.** Second National Bank has a desired reserve ratio of 20%. Second National Bank has its desired amount of reserves and has no excess reserves. Second National Bank's liabilities are
- 200.
  - 250.
  - 350.
  - 400.

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      T Account for First Charter Bank
      Assets                               Liabilities
AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA
Reserves      300           1000          Deposits
Loans         700
              _____
              1000           1000
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**Figure 11.3**

18. **Refer to Figure 11.3.** If the desired reserve ratio is 20%, First Charter Bank
- is suffering from cash drain.
  - has too few reserves on hand.
  - is meeting its desired reserve ratio and has no excess reserves.
  - has excess reserves of 100.
19. **Refer to Figure 11.3.** First Charter Bank will have its desired level of reserves with no excess reserves if the desired reserve ratio is
- 3%.
  - 7%.
  - 30%.
  - 33.33%.
20. **Refer to Figure 11.3.** First Charter Bank would wish to make additional loans of 200, if the desired reserve ratio were
- 10%.
  - 20%.
  - 25%.
  - 30%.