Chapter 7 MCQ

1. Which of the following statements is correct?

* There is generally a positive correlation between money growth and inflation
* If we compare countries with similar growth rates of money supply, there is a high correlation between money growth and inflation
* **If we compare countries with very different growth rates of money supply, there is a high correlation between money growth and inflation**
* There is no correlation between money growth and inflation
* Fluctuations in inflation are well explained by fluctuations in money growth

1. The opportunity cost of holding money is \_\_\_\_\_\_\_\_\_\_\_?

* **the nominal interest rate**
* the real interest rate
* inflation
* the cost of going to the bank more often
* the real return on investment

1. If nominal money supply grows 4 % per year, velocity is constant, and real GDP grows 1 % per year, inflation will be \_\_\_\_\_\_\_\_\_\_\_?

* 1%
* 2%
* **3%**
* 4%
* 5%

1. If nominal money supply grows 4 % per year, velocity increases one % per year, and real GDP grows 1 % per year, inflation will be \_\_\_\_\_\_\_\_\_\_\_?

* 1%
* 2%
* 3%
* **4%**
* 5%

1. If nominal money supply grows 4 % per year, velocity is constant, and real GDP grows 3% per year, inflation will be \_\_\_\_\_\_\_\_\_\_\_?

* 1%
* **2%**
* 3%
* 4%
* 5%

1. If inflation is 3% per year, velocity is constant, and real GDP grows 1% per year, money supply must increase \_\_\_\_\_\_\_\_\_\_\_?

* 1%
* 2%
* 3%
* **4%**
* 5%

1. If nominal GDP grows 5% and velocity is constant, nominal money supply must be growing \_\_\_\_\_\_\_\_\_\_\_?

* 1%
* 2%
* 3%
* 4%
* **5%**

1. In a modern economy, almost all purchases are made using \_\_\_\_\_\_\_\_\_\_\_\_.
2. Notes and coins
3. **Notes and coins or money on bank’s accounts in the payment system**
4. Money on bank’s accounts in the payment system
5. Bank deposits
6. Which statement does **not** apply to “money” if we define it as the value of all notes and coins in circulation?
7. **If the central bank buys a bond worth 10 million, the quantity of money will increase 10 million**
8. Money is a unit of account, that is, prices are set in terms of money
9. Money is a medium of exchange
10. Money is a store of value that does not pay interest
11. How does M1 differ from the monetary base?
12. M1 does not include notes and coins
13. M1 includes demand deposits and reserves that banks have on their accounts at the central bank
14. **M1 includes demand deposits in commercial banks but excludes reserves that banks have on their accounts at the central bank**
15. M1 excludes demand deposits and includes reserves that banks have on their accounts at the central bank