**1.**The number of times one unit of money (currency) completes the circular flow in a given time period is called\_\_\_\_\_\_\_\_\_\_\_\_  
  
a. Velocity of consumption and saving  
b. Velocity of goods  
c. Velocity of money  
d. Velocity of money supplied by the Federal Reserve  


**2.**During an economic crisis as the one we are experiencing today; the velocity of money is expected to be\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, this is because during a crisis, when prices decline, \_\_\_\_\_\_\_\_\_  
  
a. Unchanged, economic conditions do not affect the velocity of money  
b. Lower, individuals spend less  
c. Higher, individuals sell their assets faster to get hard currency  
d. Higher, the government prints less money  


**3.**According to the quantity theory of money, an excessive increase in the money supply will result in\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and more specifically, a 10% increase in money supply would lead to\_\_\_\_\_\_percent increase in it.  
  
a. Higher price level, more than 10%  
b. Higher interest rate, 12%  
c. Lower economic growth, less than 10%  
d. Higher price level, 10%  


**4.**According to Irving Fisher, in order to derive the quantity theory conclusion, which ones of the following are assumed to be constant? Your answer is------  
  
a. P and Y  
b. Y and M  
c. V and P  
d. V and Y  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**5.**John Maynard Keynes highlighted a shortcoming of the Fisherian quantity theory equation. He claimed that real output (Y) could not stay constant when the money supply is increased because of which characteristic of a capitalistic economy?  
  
a. Persistent Involuntary unemployment if government does not act  
b. Adjustable interest rates if Federal Reserve does not act  
c. Frictional unemployment if government does not act  
d. Structural unemployment if government does not act  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**6.**With interest rates in the U.S. economy at record lows, the liquidity trap argument as presented by Keynes suggests that an increase in the money supply will have what effect on the economy?  
  
a. It will have a positive effect on real investment rate and real income  
b. It will have no impact on aggregate demand or GDP  
c. It will have a negative effect on aggregate demand and GDP  
d. Cannot be predicted without more information  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**7.**Which of the following is true? According to Keynes, effectiveness of monetary policy must be examined in terms of its effect on I. Real consumption II. Real investment III. Aggregate demand IV. Real GDP   
  
a. I, II, III  
b. II, III and IV  
c. IV only  
d. I and IV only  
e. I, II, IV  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**8.**The money market is said to be at equilibrium when\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
  
a. The actual interest rate equals the normal interest rate  
b. The upward sloping money supply curve intersects the downward sloping money demand curve  
c. The vertical money supply curve intersects the downward sloping money demand curve  
d. The Federal reserve sets the money supply dependent upon interest rate  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**9.**Why is the money supply curve drawn as a vertical straight line?  
  
a. Because it is independent of the money demand decided by the general public  
b. Because money supply is determined by the monetary policy (Federal Reserve System in USA)  
c. Because it is a fixed amount at the fixed interest rate  
d. Becasue money supply is negatively related to the intrest rate in USA  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**10.**The quantity of money demanded for speculative motive increases when interest rate decreases, this is because, when interest rate goes down the bond price goes------ and people use--- money to buy bonds, and they keep-----money in cash leading to ------quantity of money demanded   
  
a. up, less, more, lower  
b. down, more, less, lower  
c. up, less, more, higher  
d. down, more, less, higher  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**11.**Why is the price of bonds the inverse to the interest rate in the economy?   
  
a. Because if I have a bond that pays 5% interest and the interest rate in the economy goes up to 6%, no one will want to buy my bond because it is paying 1% below market rate, so I have ot lower its price  
b. Because if the interest rate in the economy goes up it becomes harder to service (or to pay out) the bond no matter what its price is.  
c. Because if the interest rate in the economy goes down, the face value of my bond would be worth more than bonds issued under the lower interest rate, hence my bond becomes attractive to bond buyers.  
d. All of the above answers make sense  
e. Only 1 and 3 above answers are correct explanations  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**12.**If the money supply in an economy decreases, what is expected to happen to the interest rate?  
  
a. It will increase since the decline in money supply would make higher demadn for loans leading to higher interest rate  
b. It will stay the same since there is no change in the demand for money  
c. It will decrease since there is more demand for money  
d. It will decrease since there is less demand for money  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**13.**Friedman claims that the demand for money is significantly affected by-----  
  
a. Permanent income, general price level and rate of interest on bonds only.  
b. Permanent income (GDP) and general price level (P) only  
c. Permanent income, general price level, wealth, and human capital only  
d. Permanent income, wealth and human capital only  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**14.**Why does the liquidity trap exist? According to Keynes it is because \_\_\_\_\_\_\_  
  
a. At extremely high interest rates there is infinite demand for precautionary money  
b. At the very low interest rate the transactional demand for money would be very high  
c. The shape of the money supply curve is a vertical straight line as we have higher interest rate  
d. At extremely low interest rate there is a very high demand for money for speculation in the bond market  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**15.**Suppose thre is a contractionary monetary policy adopted leading to lower money supply. Then the Keynesian Chain predicts that a lower (or a decrease in) money supply will create which of the following reactions?  
  
a. Increase the interest rate => increase investment => increase Y  
b. Increase the interest rate => decrease investment =>increase Y  
c. Increase the interest rate=> decrease investment=> decrease Y  
d. Increase the interest rate => increase investment => decrease Y  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**16.**According to monetarists if an increase in the money supply results in high liquidity effect, and low price and income effects, then the new equilibrium interest rate will be----  
  
a. Higher than the original  
b. Lower than the original  
c. The same as the original.  
d. Undetermined, becasue other factors also matter according to monetarists.  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**17.**An expansionary monetary policy according to Keynes will lead to \_\_\_\_\_\_\_\_  
  
a. No change in any other macro-economic variable  
b. MEC greater than the interest rate, leading to higher investment and GDP  
c. MEC greater than the interest rate, leading to decline in investment and GDP  
d. MEC greater than the interest rate, leading to higher investment but a decline in GDP   
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**18.**According to monetarists, why does the interest rate have a low elasticity of demand for money?  
  
a. Because savings is high  
b. Because assets can be held in many more forms than just money and bonds  
c. Because assets can only be held as money or as bonds  
d. None of the above are correct explanations according to monetarists  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**19.**According to monetarists if the velocity of money is stable, an increase in the money supply will have which of the following effects?  
  
a. If the economy is not at full employment, an increase in M will result in a higher increase in the price level faster than GDP  
b. If the economy is at full employment an increase in M will result in a higher increase in GDP than in the price level  
c. If the economy is at full employment an increase in M will result in a higher increase in the price level faster than GDP  
d. If the economy is not at full employment, an increase in M will result in a higher increase in GDP but a decline in the price level  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**20.**The biggest problems associated with adopting a monetary rule in the USA are \_\_\_\_\_ and \_\_\_\_\_\_\_\_\_   
  
a. The money supply has not increased, V has stayed constant in the last 50 years  
b. The velocity of money has not decreased, money supply is hard to measure  
c. Interest rate has declined, and price level has stayed steady in the last 60 years  
d. The money supply has not decreased, price level has declined  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**21.**Which of the following is a benefit of the monetary rule put forth by monetarists? I. Adoption of a monetary rule would decrease business cycles II. Adoption of a monetary rule allows monetary policy to fulfill its goal of stabilizing the aggregate demand level of an economy III. Adoption of a monetary rule means more governmental interference in economic affairs  
  
a. I, II, and III  
b. II and III  
c. I and II  
d. III  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**22.**Monetarists diverge from Keynesians in the belief that \_\_\_\_\_\_, due to crowding out, and Friedman in 1960s believed that in USA, money supply should increase by \_\_\_\_percent annual rate.  
  
a. Monetary policy is not effective in changing GDP, 10  
b. Fiscal policy is not effective in changing GDP, 4  
c. Monetary policy is effective in changing GDP, 15   
d. Fiscal policy is effective in changing GDP, 8  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**23.**A monetary rule is not the cure for \_\_\_\_\_ inflation. It can only make a change in \_\_\_\_\_\_ inflation.  
  
a. hyper, cost-push  
b. demand-pull, cost-push  
c. cost-push, demand-pull  
d. runaway, cost-push  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**24.**What causes the crowding out of the private sector when government expenditure increases?  
  
a. Increase in the government debt, causing the price of bonds to decrease and the interest rate to decrease  
b. Increase in the supply of bonds, causing the price of bonds to increase and the interest rate to increase  
c. Increase in the government debt, causing the price of bonds to increase and the interest rate to increase  
d. Increase in the supply of bonds, causing the price of bonds to decrease and interest rates to increase  
  Description: http://metrostate.blackboard.com/webct/images/shim.gif

**25.**Demand-pull inflation differs from cost-push inflation in that\_\_\_\_\_\_\_\_\_  
  
a. Cost push inflation can be solved by technological advances  
b. Cost-push inflation can be solved by the adoption of a monetary rule  
c. Cost-push inflation can be solved by decreasing the interest rate  
d. Cost push inflation can be solved only when demand pull inflation is close to zero