

Quiz I: Introduction to Money and Interest Rates

Name _____

Id # _____

Instructions: Please mark the answers to the multiple choice questions on the exam paper in the space provided and turn the exam in at the end.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Financial markets have the basic function of
- A) assuring that governments need never resort to printing money.
 - B) assuring that the swings in the business cycle are less pronounced.
 - C) getting people with funds to lend together with people who want to borrow funds.
 - D) both A and B of the above.
 - E) both B and C of the above.

Answer: C

- 2) Which of the following can be described as involving indirect finance?
- A) People buy shares in a mutual fund.
 - B) A corporation buys a short-term security issued by another corporation.
 - C) A corporation takes out loans from a bank.
 - D) Both A and B of the above.

Answer: C

- 3) Of money's three functions, the one that distinguishes money from other assets is its function as a
- A) unit of account.
 - B) standard of deferred payment.
 - C) store of value.
 - D) medium of exchange.

Answer: D

- 4) The conversion of a barter economy to one that uses money
- A) does not increase economic efficiency.
 - B) increases efficiency by reducing the need to exchange goods and services.
 - C) increases efficiency by reducing the need to specialize.
 - D) increases efficiency by reducing transactions costs.

Answer: D

- 5) If there are three goods in a barter economy, one needs to know three prices in order to exchange one good for another. If, however, there are six goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another.
- A) 9
 - B) 6
 - C) 12
 - D) 15

Answer: D

- 6) Which of the following is not included in the measure of M1?
- A) Traveler's checks
 - B) Demand deposits
 - C) Gold coins issued by the U.S. Treasury
 - D) Currency

Answer: C

- 7) Of the following measures of interest rates, which is considered by economists to be the most accurate?
- A) The yield on a discount basis
 - B) The coupon rate
 - C) The yield to maturity
 - D) The current yield

Answer: C

- 8) A security that pays \$52.50 in one year and \$110.25 in two years, with an interest rate of 5 percent, has a present value of
- A) \$400.
 - B) \$162.50.
 - C) \$300.
 - D) \$150.
 - E) \$200.

Answer: D

- 9) The current yield on a \$5,000, 8 percent coupon bond selling for \$4,000 is
- A) 8 percent.
 - B) 5 percent.
 - C) 20 percent.
 - D) 10 percent.
 - E) none of the above.

Answer: D

- 10) The return on a 5 percent coupon bond that initially sells for \$1,000 and sells for \$1,100 next year is
- A) 14 percent.
 - B) 15 percent.
 - C) 5 percent.
 - D) 10 percent.

Answer: B