

ECON UN3265: Money and Banking

Summer 2026 — Practice Quiz

Chapter 3 — Practice Quiz

How to use this quiz. These 30 questions are the complete pool for Chapter 3. The in-class quiz is a random subset of exactly these questions. Work through them after the reading; the answer key is on the last page.

Questions

1. To an economist, ____ is anything that is generally accepted in payment for goods or services or in the repayment of debt. *[TB 3.1.1]*
 - A) wealth
 - B) income
 - C) money
 - D) credit
2. Currency includes *[TB 3.1.3]*
 - A) paper money and coins
 - B) paper money, coins, and checks
 - C) paper money and checks
 - D) paper money, coins, checks, and savings deposits
3. Even economists have no single, precise definition of money because *[TB 3.1.4]*
 - A) money supply statistics are a state secret
 - B) the Federal Reserve does not employ or report different measures of the money supply
 - C) the moneyness or liquidity of an asset is a matter of degree
 - D) economists refuse to agree for ideological reasons
4. The total collection of pieces of property that serve to store value is a person's *[TB 3.1.5]*
 - A) wealth
 - B) income
 - C) money
 - D) credit
5. ____ is a flow of earnings per unit of time. *[TB 3.1.8]*

- A) Income
 - B) Money
 - C) Wealth
 - D) Currency
6. The difference between money and income is that *[TB 3.1.11]*
- A) money is a flow and income is a stock
 - B) money is a stock and income is a flow
 - C) there is no difference — money and income are both stocks
 - D) there is no difference — money and income are both flows
7. Which of the following statements uses the economists' definition of money? *[TB 3.1.13]*
- A) I plan to earn a lot of money over the summer.
 - B) Betsy is rich — she has a lot of money.
 - C) I hope that I have enough money to buy my lunch today.
 - D) The job with New Company gave me the opportunity to earn more money.
8. Of money's three functions, the one that distinguishes money from other assets is its function as a *[TB 3.2.1]*
- A) store of value
 - B) unit of account
 - C) standard of deferred payment
 - D) medium of exchange
9. If peanuts serve as a medium of exchange, a unit of account, and a store of value, then peanuts are *[TB 3.2.2]*
- A) bank deposits
 - B) reserves
 - C) money
 - D) loanable funds
10. When compared to exchange systems that rely on money, disadvantages of the barter system include *[TB 3.2.5]*
- A) the requirement of a double coincidence of wants
 - B) lowering the cost of exchanging goods over time

- C) lowering the cost of exchange to those who would specialize
- D) encouraging specialization and the division of labor
11. Which of the following statements best explains how the use of money in an economy increases economic efficiency? *[TB 3.2.7]*
- A) Money increases economic efficiency because it is costless to produce.
- B) Money increases economic efficiency because it discourages specialization.
- C) Money increases economic efficiency because it decreases transactions costs.
- D) Money cannot have an effect on economic efficiency.
12. Whatever a society uses as money, the distinguishing characteristic is that it must *[TB 3.2.12]*
- A) be completely inflation proof
- B) be generally acceptable as payment for goods and services or in the repayment of debt
- C) contain gold
- D) be produced by the government
13. When money prices are used to facilitate comparisons of value, money is said to function as a *[TB 3.2.15]*
- A) unit of account
- B) medium of exchange
- C) store of value
- D) payments-system ruler
14. In a barter economy the number of prices in an economy with N goods is *[TB 3.2.17]*
- $N(N - 1) / 2$
- A) $N(N/2)$
- B) $2N$
- C) $N(N/2) - 1$
15. ____ is the relative ease and speed with which an asset can be converted into a medium of exchange. *[TB 3.2.24]*
- A) Efficiency
- B) Liquidity
- C) Deflation
- D) Specialization

16. Since it does not have to be converted into anything else to make purchases, _____ is the most liquid asset. *[TB 3.2.26]*
- A) money
 - B) stock
 - C) artwork
 - D) gold
17. A hyperinflation is *[TB 3.2.32]*
- A) a period of extreme inflation generally greater than 50% per month
 - B) a period of anxiety caused by rising prices
 - C) an increase in output caused by higher prices
 - D) impossible today because of tighter regulations
18. _____ money could be used for some other purpose other than as a medium of exchange; for example, gold coins could be melted down into jewelry. *[TB 3.3.3]*
- A) Commodity
 - B) Fiat
 - C) Paper
 - D) Electronic
19. Paper currency that has been declared legal tender but is not convertible into coins or precious metals is called _____ money. *[TB 3.3.5]*
- A) commodity
 - B) fiat
 - C) electronic
 - D) funny
20. Which of the following sequences accurately describes the evolution of the payments system? *[TB 3.3.13]*
- A) barter, coins made of precious metals, paper currency, checks, electronic funds transfers
 - B) barter, coins made of precious metals, checks, paper currency, electronic funds transfers
 - C) barter, checks, paper currency, coins made of precious metals, electronic funds transfers
 - D) barter, checks, paper currency, electronic funds transfers
21. Which of the following is NOT a form of e-money? *[TB 3.3.15]*
- A) a debit card

- B) a credit card
 - C) a stored-value card
 - D) a smart card
22. In explaining the evolution of money, *[TB 3.3.18]*
- A) government regulation is the most important factor
 - B) commodity money, because it is valued more highly, tends to drive out paper money
 - C) new forms of money evolve to lower transaction costs
 - D) paper money is always backed by gold and therefore more desirable than checks
23. A feature of cryptocurrencies that makes them attractive as a medium of exchange is *[TB 3.3.19]*
- A) anonymous transactions
 - B) volatility of value
 - C) heavy regulation by the central bank
 - D) wide acceptance by businesses
24. Bitcoin and other cryptocurrencies fail to satisfy which two of the three functions of money? *[TB 3.3.20]*
- A) unit of account and store of value
 - B) medium of exchange and unit of account
 - C) medium of exchange and store of value
 - D) bitcoin satisfies all of the functions of money
25. Monetary aggregates are *[TB 3.4.3]*
- A) measures of the money supply reported by the Federal Reserve
 - B) measures of the wealth of individuals
 - C) never redefined since money never changes
 - D) reported by the Treasury Department annually
26. ____ is the narrowest monetary aggregate that the Fed reports. *[TB 3.4.4]*
- A) M0
 - B) M1
 - C) M2
 - D) M3

27. The components of the U.S. M1 money supply are demand deposits and other checkable deposits plus *[TB 3.4.7]*
- A) currency
 - B) currency plus savings deposits
 - C) currency plus traveler's checks
 - D) currency plus traveler's checks plus money market deposits
28. Which of the following is NOT included in the M1 measure of money but IS included in the M2 measure of money? *[TB 3.4.10]*
- A) currency
 - B) traveler's checks
 - C) demand deposits
 - D) small-denomination time deposits
29. Which of the following is included in M2 but NOT in M1? *[TB 3.4.13]*
- A) NOW accounts
 - B) demand deposits
 - C) currency
 - D) money market mutual fund shares (retail)
30. Of the following, the largest measure is *[TB 3.4.14]*
- A) money market deposit accounts
 - B) demand deposits
 - C) M1
 - D) M2

Answer Key

1. C (TB 3.1.1) 2. A (TB 3.1.3) 3. C (TB 3.1.4) 4. A (TB 3.1.5) 5. A (TB 3.1.8) 6. B (TB 3.1.11)
7. C (TB 3.1.13) 8. D (TB 3.2.1) 9. C (TB 3.2.2) 10. A (TB 3.2.5) 11. C (TB 3.2.7) 12. B (TB 3.2.12)
13. A (TB 3.2.15) 14. A (TB 3.2.17) 15. B (TB 3.2.24) 16. A (TB 3.2.26) 17. A (TB 3.2.32) 18. A
(TB 3.3.3) 19. B (TB 3.3.5) 20. A (TB 3.3.13) 21. B (TB 3.3.15) 22. C (TB 3.3.18) 23. A (TB 3.3.19)
24. A (TB 3.3.20) 25. A (TB 3.4.3) 26. B (TB 3.4.4) 27. C (TB 3.4.7) 28. D (TB 3.4.10) 29. D (TB
3.4.13) 30. D (TB 3.4.14)