Topic 8. FINANCING THE ECONOMY

8.1 Money: concept, kinds and functions

BASIC CONCEPTS

Medium of exchange
Store of value
Unit of account
Real assets
Financial assets
Liquidity of an asset
Fiat money
Bank money
Demand deposits
Saving deposits
Time deposits
The Money Supply

MULTIPLE-CHOICE QUESTIONS

1. Bank money is:
    a. Checks
    b. Demand deposits
    c. Cash in banks
    d. Cash in Central bank

2. The quantity of money in an economy may be defined as:
    a. Currency in circulation
    b. Notes and coins
    c. Currency in circulation plus bank deposits
    d. Currency in circulation plus foreign currency

3. M1
    a. May include time deposits.
    b. Is equal to currency in circulation plus bank reserves.
    c. Is equal to fiat money plus demand deposits.
    d. All the answers are right.

4. Point out the function of money that sets the price of goods and services:
    a. Store of value
    b. Unit of account
    c. Medium of exchange
    d. No answer is right.

5. If the interest rate falls, the opportunity cost of holding cash:
    a. Rises
    b. Falls
    c. Does not change
    d. There is no relationship between both concepts

SOLUTIONS TO MULTIPLE-CHOICE QUESTIONS

01. b

02. c

03. a

04. b

05. b