

Monetary Theory: Equation of Exchange and Money Market Equilibrium

The equation of exchange is indicated by

- a. $PQ / M + V = \text{GDP}$
- b. $V = M + PQ$
- *c. $MV = PQ$
- d. $M + V = P + Q$

In the equation of exchange

- *a. MV represents aggregate demand, PQ represents aggregate supply (nominal GDP)
- b. PQ represents aggregate demand, MV represents aggregate supply (nominal GDP)
- c. MV represents both aggregate demand and aggregate supply (nominal GDP)
- d. PQ represents both aggregate demand and aggregate supply (nominal GDP)

In equation of exchange, if V is constant, an increase in M will necessarily increase

- a. The velocity of money
- *b. Nominal GDP (PQ)
- c. The demand of money
- d. Government of spending

When nominal GDP (PQ) is divided by the money supply (M), we obtain the

- *a. Velocity of money
- b. Price level
- c. Level of real output
- d. Money multiplier

Any factor that reduces the amount of money people demand relative to their annual expenditures

- a. Increase the price level
- b. Increases the level of real output
- c. Increase the interest rates
- *d. Increases the velocity of money

The velocity of money tends to decrease

- a. The faster means of making payments
- b. The higher is expected rate of inflation
- *c. As public confidence in the economy deteriorates
- d. People are paid more frequently

According to the quantity theory of money, a doubling of the money supply results in a doubling of the price level. This is because

- *a. Velocity is assumed to be constant and output is assumed to be constant at full employment
- b. Velocity is assumed to increase as the economy approaches full employment
- c. Velocity is assumed to decrease as the economy approached full employment
- d. Output is assumed to be below its full-employment level

According to J.M. Keynes, the demand curve for money (liquidity) is underlaid by

- a. The transaction motive
- b. The asset motive
- *c. All of the above

The _____ demand for money refers to the need for money to finance ordinary expenditures and it is directly related to nominal GDP (income)

- *a. Transaction
- b. Asset

The _____ demand for money refers to money balances held with the intent of making future investments in stock or bonds in order to make a profit

- a. Transaction
- *b. Asset

According to the theory of money, the interest rate on bank deposits and bonds

- *a. Is the opportunity cost of holding money in idle balances
- b. Rises as household income decreases
- c. Decreases as the rate of inflation worsens
- d. Increases as the rate of deflation increases

In the market for money, as the interest rate on bank deposits or bonds increases, people tend to

- a. Hold more of their wealth in the form of non-interest bearing money balances
- *b. Less of their wealth in the form of non-interest bearing money balances
- c. Do not change their holdings of non-interest bearing money balances

In the market for money, as the interest rate on bank deposits or bonds decreases, people have an incentive to

- *a. Hold more of their wealth in the form of non-interest bearing money balances
- b. Less of their wealth in the form of non-interest bearing money balances
- c. Do not change their holdings of non-interest bearing money balances

Keynes theory of money (liquidity preference) implies that the quantity of money balances demanded is

- a. Negatively related to both the interest rate and the GDP
- b. Positively related to both the interest rate and GDP
- c. Positively related to the interest rate and negatively related to GDP
- *d. Negatively related to the interest rate and positively related to GDP

Suppose that the price level and the money supply are fixed, and the demand for money is a function of the rate of interest and GDP. When GDP increases, there is

- a. an increase in the quantity of money demanded and a decrease in the interest rate
- *b. an increase in the quantity of money demanded and an increase in the interest rate
- c. a decrease in the quantity of money demanded and a decrease in the interest rate
- d. a decrease in the quantity of money demanded and an increase in the interest rate

Movements along the total demand curve for money are caused by changes in

- *a. the interest rate
- b. the price level

- c. the level of national income
- d. gross domestic product

That the supply of money is established by the Federal Reserve System and does not change when the interest rate changes makes the supply curve of money appear as a

- a. downward sloping line
- b. upward sloping line
- c. horizontal line
- *d. vertical line

In the market for money, the demand curve for money would shift outward to the right in response to

- a. a decrease in the price level
- b. a rise in the interest rate
- c. a decrease in GDP
- *d. an increase in GDP

In which of the following cases do we know that the quantity of money demanded by the public will decline?

- a. GDP decreases and the interest rate decreases
- b. GDP increases and the interest rate decreases
- c. GDP increases and the interest rate increases
- *d. GDP decreases and the interest rate increases

The market for money is in equilibrium when

- a. bond prices are declining
- b. the interest rate is rising
- c. the interest rate is falling
- *d. the quantity of money supplied equals the quantity of money demanded

There is an asset demand for money because money serves as a

- a. medium of exchange
- b. standard of value/unit of account
- *c. store of value
- d. standard of inflation or deflation

A decrease in the rate of interest would decrease

- *a. the opportunity cost of holding money
- b. the transaction demand for money
- c. the asset demand for money
- d. the price of bonds

If the dollars held for transactions purposes are spent four times a year for final goods and services, then the quantity of money people will desire to hold for transactions is equal to

- *a. 25 percent of the nominal GDP
- b. four times the nominal GDP
- c. four divided by the nominal GDP
- d. 25 percent divided by the nominal GDP