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

1) Financial markets promote economic efficiency by

A) causing recessions.

B) channeling funds from investors to savers.

C) channeling funds from savers to investors.

D) creating inflation.

E) reducing investment.

2) The price paid for the rental of borrowed funds (usually expressed as a percentage of the rental of $100 per year) is commonly referred to as the

A) exchange rate.

B) inflation rate.

C) interest rate.

D) aggregate price level.

3) The stock market is important because

A) it is where interest rates are determined.

B) it is the most widely followed financial market in the United States.

C) it is where foreign exchange rates are determined.

D) all of the above.

4) Banks are important to the study of money and the economy because they

A) hold a large proportion of individuals' wealth.

B) have been a source of rapid financial innovation that is expanding the alternatives available to those wanting to invest their money.

C) provide a channel for linking those who want to save with those who want to invest.

D) do each of the above.

5) The price of one country's currency in terms of another's is called

A) the interest rate.

B) the Dow Jones industrial average.

C) the exchange rate.

D) none of the above.

6) Money is defined as

A) a risk-free repository of spending power.

B) the unrecognized liability of governments.

C) anything that is generally accepted in payment for goods and services or in the repayment of debt.

D) bills of exchange.

7) If the price level increases from 200 in year 1 to 220 in year 2, the rate of inflation from year 1 to year 2 is

A) 120%. B) 20%. C) 11%. D) 10%. E) 220%.

8) If real GDP grows from $10 trillion in 2002 to $10.5 trillion in 2003, the growth rate for real GDP is

A) 50%.

B) 0.5%.

C) 5%.

D) 10%.

E) cannot be determined.

9) If the CPI in 2004 is 200, and in 2005 the CPI is 180, the rate of inflation from 2004 to 2005 is

A) 10%. B) 0%. C) –10%. D) –20%. E) 20%.

Answer Key
Testname: CHAPTER 1 PQ.TST

1) C
2) C
3) B
4) D
5) C
6) C
7) D
8) C
9) C