Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

1. To say that money serves as a store of value is to say that money is a useful way to store wealth for future use.
   a. True
   b. False

2. With a 20 percent reserve ratio, banks must hold 20 percent of all assets as reserves.
   a. True
   b. False

3. The narrowest definition of the money supply includes only currency held by the nonbank public.
   a. True
   b. False

4. M1 includes currency held in bank vaults.
   a. True
   b. False

5. Banks create money when they make loans.
   a. True
   b. False

6. The demand for money is depicted diagrammatically as a curve sloping downward to the right because when the interest rate falls, the opportunity cost of holding assets in the form of money decreases.
   a. True
   b. False

7. Monetary policy will be effective in changing Gross Domestic Product when interest rates are sensitive to changes in the money supply and planned investment spending is sensitive to changes in interest rates.
   a. True
   b. False

8. If the short-run Phillips curve held true in the long run as well, policy makers could combat unemployment and inflation simultaneously.
   a. True
   b. False

9. It is possible for the budget deficit to change even if there is no change in discretionary fiscal policy.
   a. True
   b. False

10. The federal government spends more for national defense than for anything else.
    a. True
    b. False

11. The price elasticity of demand is equal to the slope of the demand curve.
    a. True
    b. False

12. If a $1 increase in price leads to a 3-unit decrease in quantity demanded, then demand must be elastic.
    a. True
    b. False
13. Inelastic demand means that the percentage change in price is greater than the percentage change in quantity demanded.
   a. True
   b. False

14. If demand is elastic, a fall in price leads to a fall in total revenue.
   a. True
   b. False

15. The law of diminishing marginal utility suggests it is possible, and somewhat likely, that the marginal utility of my tenth pistachio nut is less than the marginal utility of my third pistachio nut, other things constant.
   a. True
   b. False

16. Positive marginal utility implies increasing total utility.
   a. True
   b. False

17. A utility-maximizing consumer equalizes marginal utilities across all goods.
   a. True
   b. False

Sample T/F Questions, ECO 5003, Quiz B
Answer Section

1. A
2. B
3. B
4. B
5. A
6. A
7. A
8. B
9. A
10. B
11. B
12. B
13. A
14. B
15. A
16. A
17. B