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Spring 2006, Intermediate Macroeconomics, section 2

ECON 219 Quiz VI

General recommendations:
- Read questions thoroughly.
- Please respond on this copy.
- You have 20 minutes.
- Work individually.
- There are two pages.
- Good luck!

Your name:

1. Circle the appropriate answer on each of the following items. Circle multiple items if necessary:

    (a) $M1$ contains:
    a) cash, b) savings accounts, c) checking accounts, d) certificates of deposits.

    (b) The opportunity cost of money is:
    a) zero, b) the inflation rate, c) the real interest rate, d) the nominal interest rate.

    (c) To obtain the real interest rate, one needs:
    a) the price level, b) the inflation rate, c) the nominal interest rate, d) the money growth rate.

    (d) Money neutrality is:
    a) with money, one can still use the representative agent, b) changes in money do not affect real variables, c) changes in inflation do not affect real variables, d) monetary policy is independent from politics.

2. Why is money useful for transactions?

3. Why is money neutral in the model we saw in class?

4. Give three characteristics a good should have to be used as money.

5. From the intertemporal model with investment and money we saw in class, what can we say about the contribution of money to business cycles? Why?

Bonus question: Explain why credit cards are not money.