1. Assume that the real rate of interest is 5 percent and a lender charges a nominal interest rate of 15 percent. If a borrower expects that the rate of inflation next year will be 10 percent and the actual rate of inflation next year is 12 percent:
   a. neither the borrower nor the lender benefits from inflation.
   b. both the borrower and the lender lose from inflation.
   c. the borrower benefits from inflation, while the lender loses from inflation.
   d. the lender benefits from inflation, while the borrower loses from inflation.

2. Suppose workers agreed to an indexed contract that increased their nominal wage by 4 percent plus 50 percent of any increase (in percentage) in the Consumer Price Index (CPI). If the CPI is increased by 8 percent, what would be the change in the real wage?
   a. 4 percent
   b. -2 percent
   c. 0 percent
   d. -4 percent
   e. 2 percent

3. The primary functions of money are:
   a. velocity, liquidity, and transactions.
   b. speculative demand, measure of value, and precautionary demand.
   c. a medium of exchange, a unit of account, and a store of value.
   d. a store of value, heterogeneity, and a medium of exchange.
   e. currency value, fiat value, and accepted value.

4. Which of the following forms of money is the least liquid?
   a. Dollars.
   b. Checking account deposits.
   c. Savings account.
   d. Certificates of deposit.

5. Which of the following is counted as part of M2?
   a. Currency.
   b. Checkable deposits at commercial banks.
   c. Small denomination time deposits.
   d. All of the above.
6. Suppose you transfer $1,000 from your checking account to your savings account. How does this action affect the M1 and M2 money supplies?
   a. M1 and M2 are both unchanged.
   b. M1 falls by $1,000, and M2 rises by $1,000
   c. M1 is unchanged, and M2 rises by $1,000.
   d. M1 falls by $1,000, and M2 is unchanged.

7. The Fed’s principal decision-making body, which directs buying and selling U.S. government securities, is known as the:
   a. Federal Deposit Insurance Corporation.
   b. District Board of Governors.
   c. Federal Open Market Committee.
   d. Reserve Requirement Regulation Conference.

8. If a bank has actual reserves of $40,000 and a 20 percent reserve requirement, then the maximum amount of checkable deposits the bank can have if excess reserves are zero is:
   a. $100,000.
   b. $80,000.
   c. $300,000.
   d. $20,000.
   e. $200,000.

9. A bank faces a required reserve ratio of 5 percent. If the bank has $200 million of checkable deposits and $15 million of total reserves, then how large are the bank's excess reserves?
   a. $0.
   b. $5 million.
   c. $10 million.
   d. $15 million.

10. Imagine that Odyssey National is a brand new bank, and a 10 percent required reserve ratio is applied to all the banks in the banking system. If Odyssey National accepts a $1,000 cash deposit, then, excluding the $1,000 initial deposit, the whole banking system can increase the money supply by:
    a. $900.
    b. $910.
    c. $1,000.
    d. $9,000.
    e. $10,000.