

AP Macroeconomics

Name: _____ Score: _____

1. A bond is:
 - ☐ cash in a bank
 - ☐ a loan that pays fixed interest and returns the principal
 - ☐ a tax
 - ☐ a share of ownership in a company
2. The Fisher equation says the real interest rate approximately equals:
 - ☐ the nominal rate minus expected inflation
 - ☐ the nominal rate plus inflation
 - ☐ the nominal rate times inflation
 - ☐ inflation minus the nominal rate
3. Money used to pay for goods, avoiding barter, is acting as a:
 - ☐ unit of account
 - ☐ commodity
 - ☐ medium of exchange
 - ☐ store of value
4. The fraction of deposits a bank must keep rather than lend is the _____ ratio.

5. The demand for money slopes downward against the interest rate because:
 - ☐ money is free
 - ☐ the interest rate is the opportunity cost of holding cash
 - ☐ cash pays high interest
 - ☐ the government sets it
6. Expansionary monetary policy, used to fight a recession:
 - ☐ raises the money supply and lowers interest rates
 - ☐ does nothing
 - ☐ raises taxes
 - ☐ lowers the money supply and raises interest rates

7. The loanable funds market sets the _____ interest rate.

8. A bond pays 50 a year and its price falls to 500. What is its yield, in percent?

_____ percent

9. A loan has a nominal rate of 6% and inflation turns out to be 5%. What is the real interest rate, in percent?

_____ percent

10. Select **all** three functions of money.

☐ unit of account

☐ medium of exchange

☐ source of pollution

☐ store of value

Tick every correct option.

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1. **a loan that pays fixed interest and returns the principal**

A bond is a loan; a stock is ownership; a deposit is money in a bank.

2. **the nominal rate minus expected inflation**

Real $\approx$ nominal $-$ expected inflation $-$ inflation is subtracted out.

3. **medium of exchange**

Accepting money in payment is the medium-of-exchange function.

4. **reserve**

The reserve ratio sets how much banks keep; the rest is lent out.

5. **the interest rate is the opportunity cost of holding cash**

When rates are high, holding cash costs more, so people hold less and buy bonds.

6. **raises the money supply and lowers interest rates**

More money and lower rates spur borrowing and spending, shifting AD right.

7. **real**

It sets the real rate for borrowing and lending over time.

8. **10 percent**

Yield $= 50 \div 500 \times 100 = 10\%$.

9. **1 percent**

Real rate $= 6 - 5 = 1\%$.

10. **unit of account; medium of exchange; store of value**

Money is a medium of exchange, a store of value and a unit of account.