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:

   ☐ holding money has no cost at all

   ☐ the interest rate is the opportunity cost of holding cash

   ☐ cash pays a high rate of interest

   ☐ the government sets money demand

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

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_____

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.

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.

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