1. The velocity of money is:
   1. The same as the inflation rate.
   2. **The number of times per year a dollar is used to pay wages**.
   3. The average number of times per year a dollar is used to buy goods and services produced in the economy.
   4. The rate at which new dollars can be printed.
2. Velocity can be calculated as:
   1. M/Real GDP
   2. **Nominal GDP/M**
   3. Real GDP/M
   4. M/Nominal GDP.
3. Historically, velocity was considered:
   1. **To fluctuate considerably**
   2. To decline at a constant rate.
   3. To be constant in the short run
   4. To grow at a constant rate.
4. According to Keynes, which is not a motive behind the demand for money?
   1. **Income motive.**
   2. Speculative motive.
   3. Transactions motive.
   4. Precautionary motive.
5. A liquidity trap
   1. Is shown by a flat money demand curve
   2. Is the result of extreme interest rate sensitivity on the demand for money
   3. Makes it difficult for monetary policy to have an effect on the economy.
   4. **All of the above**
6. Which of the following does not influence the Friedman demand for money?
   1. The return on bonds relative to the return on money.
   2. **Business cycle movements.**
   3. The return on stocks relative to the return on money.
   4. Permanent income.
7. A difference between Keynesian and Friedman money demand relationships is:
   1. Friedman money demand implies velocity is unpredictable but Keynesian money demand considers velocity stable.
   2. Keynesian money demand depends on asset demand but asset demand has little role in Friedman money demand.
   3. Keynesian money demand is sensitive to interest rates but interest rates have no role in Friedman money function.
   4. **Friedman money demand depends on permanent income but permanent income has no role in Keynesian money demand.**
8. The more sensitive money demand is to interest rates, the
   1. more likely velocity will be constant.
   2. more likely velocity will rise.
   3. more likely velocity will fall.
   4. **more velocity will fluctuate.**
9. The precautionary motive for holding money
   1. Is related to the level of interest rates
   2. Is related to velocity fluctuations
   3. Is related to liquidity.
   4. **Is related to expected future transactions**
10. Historically, M2 velocity
    1. Has been constant
    2. **Has been more stable than M1 velocity**.
    3. Varied with exchange rates.
    4. Has no relationship with the M2 opportunity costs.
11. According to the quantity theory of money, what happens if the money supply doubles?
    1. Velocity doubles.
    2. Velocity is halved.
    3. Aggregate output doubles.
    4. **The price level doubles.**
12. Keynes's speculative motive for holding money is based on money's function as a:
    1. unit of account.
    2. medium of exchange.
    3. source of income.
    4. **store of value.**
13. The Baumol-Tobin model of model demand
    1. **Demonstrated that the transactions component of money demand is negatively related to interest rates.**
    2. Demonstrated that the transactions component of money demand is not related to interest rates.
    3. Demonstrated that the transactions component of money demand is negatively related to income.
    4. Demonstrated that the transactions component of money demand is positively related to interest rates.
14. According to the empirical evidence on interest rates and money demand,
    1. The demand for money is extremely sensitive to interest rates.
    2. The demand for money is not affected by interest rates, so the quantity theory is correct.
    3. A liquidity trap has been a problem in the United States, as changes in the money supply do not affect interest rates.
    4. **The demand for money is sensitive to interest rates, but there is little evidence of a liquidity trap.**
15. In the recent past, the money demand function in the U.S.
    1. Has been quite stable, making a monetary target the operating target of choice.
    2. **Has been unstable, limiting the usefulness of money demand models as tools for the Fed.**
    3. Has been quite stable, ensuring that the velocity of money remains stable.
    4. Has been very unstable, resulting in the use of rigid money supply targets in monetary policy.