

1. Which sentence is not false?

- (a) The liquidity ratio is a monetary aggregate.
- (b) The monetary base is the sum of M1 and the money multiplier.
- (c) The money multiplier is the inverse of the discount factor when the interest rate is positive.
- (d) Sweden is not a member of the eurozone but Estonia is.

2. Two financial assets differ in just two properties. It is then to be expected that

- (a) the less profitable asset will be the less liquid.
- (b) the more liquid asset will be the less risky.
- (c) the riskier asset will be the less profitable.
- (d) the more profitable asset will be the riskier.

3. The money creation process

- (a) is a process that establishes the relationship between the interest rate and the price of financial assets.
- (b) is a technique to compute the discount rate and guarantees the role of money as a means of payment.
- (c) is an example of arbitrage.
- (d) is based on the creation of deposits.

4. Suppose the rate of return of loans and T-bills is the same and that both assets have the same maturity. If the face value of T-bills is 1090 and the interest rate corresponding to loans is 9%, then the price of T-bills when they are issued is

- (a) negative.
- (b) higher than 1000.
- (c) lower than 1000 but positive.
- (d) 1000.

5. An individual has a constant liquidity ratio  $l$ . Specifically, he has 1000 € in cash and deposits worth 2000 €. While wandering around the streets, he finds a 20 € banknote and 1 € coin. According to  $l$ , which part of the 21 € are held in cash and which part is deposited on a bank?

- (a) Cannot be determined
- (b) 10.5 € are held in cash and 10.5 € are deposited.
- (c) 14 € are held in cash and 7 € are deposited.
- (d) 7 € are held in cash and 14 € are deposited.

6. The discount factor is directly related to

- (a) the reserve ratio.
- (b) the money creation process.
- (c) the unit of account property of money.
- (d) the interest rate of the economy.

7. Select the sentence that is not true.

- (a) The interest rate could be interpreted as a measure of the borrowers' patience (or impatience).
- (b) A raise in the liquidity ratio lowers the money multiplier.
- (c) The discount factor transforms future monetary values into present monetary values.
- (d) The money multiplier links the money stock with the interest rate and the price of financial assets.

8. Which sequence represents the money creation process?

- (a)  $\uparrow i \Rightarrow \downarrow \text{price of assets} \Rightarrow \downarrow \text{wealth} \Rightarrow \uparrow \text{liquidity}$
- (b)  $\uparrow \text{liquidity} \Rightarrow \downarrow \text{risk} \Rightarrow \downarrow \text{profitability} \Rightarrow \uparrow \text{liquidity}$
- (c)  $\uparrow M0 \Rightarrow \uparrow \text{reserves} \Rightarrow \uparrow \text{liquidity ratio} \Rightarrow \uparrow \text{liquidity}$
- (d)  $\uparrow \text{deposits} \Rightarrow \uparrow \text{loans} \Rightarrow \uparrow \text{expenditures} \Rightarrow \uparrow \text{revenues} \Rightarrow \uparrow \text{deposits}$

Write your answers in minuscule letters

No answer: +0 · Correct answer: +1 · Incorrect answer: -1/3

**1**

1	2	3	4	5	6	7	8

No answer: +0 · Only one answer: if correct, +1; if incorrect, -1/3.

Two answers: if one correct, +1/2; if none correct, -1/2.

**2**

1	2	3	4	5	6	7	8

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