Faculty of Commerce- English Section

Department of Economics

E216: Money and Banking

Dr. Doaa Akl Ahmed

Tutorial on Chapter 21: *Monetary Theories*

***Economics of Money, Banking, and Fin. Markets, 11e* (Mishkin)**

Question 1: Give the suitable definitions of the following concepts:

1. monetary theory.
2. The Equation of Exchange.
3. Velocity of money.
4. Transactions motive
5. Precautionary motive .
6. Speculative motive

Question 2: Choose the correct answer:

(1) Because the quantity theory of money tells us how much money is held for a given amount of aggregate income, it is also a theory of

A) interest-rate determination.
B) the demand for money.
C) exchange-rate determination.
D) the demand for assets.

(2) If the money supply is $500 and nominal income is $3,000, the velocity of money is

A) 1/60.
B) 1/6.
C) 6.
D) 60.

(3) If nominal GDP is $10 trillion, and velocity is 10, the money supply is

A) $1 trillion.
B) $5 trillion.
C) $10 trillion.
D) $100 trillion.

(4) The equation of exchange is

A) $M \times P = V \times Y$.
B) $M + V = P + Y$.
C) $M + Y = V + P$.
D) $M \times V = P \times Y$.

(5) In Irving Fisher's quantity theory of money, velocity was determined by
A) interest rates.
B) real GDP.
C) the institutions in an economy that affect individuals' transactions.
D) the price level.

(6) The view that velocity is constant in the short run transforms the equation of exchange into the quantity theory of money. According to the quantity theory of money, when the money supply doubles
A) velocity falls by 50 percent.
B) velocity doubles.
C) nominal incomes falls by 50 percent.
D) nominal income doubles.

(7) The Keynesian theory of money demand emphasizes the importance of
A) a constant velocity.
B) irrational behavior on the part of some economic agents.
C) interest rates on the demand for money.
D) expectations.

(8) Keynes argued that the transactions component of the demand for money was primarily determined by the level of people's ________, which he believed were proportional to ________.
A) transactions; income
B) transactions; age
C) incomes; wealth
D) incomes; age

(9) Keynes hypothesized that the precautionary component of money demand was primarily determined by the level of
A) interest rates.
B) velocity.
C) income.
D) stock market prices.
(10) Keynes argued that when interest rates were low relative to some normal value, bond prices will ________ so the quantity of money demanded would ________.
A) increase; increase

B) increase; decrease
C) decrease; increase
D) decrease; decrease

Question 3: Answer the following short essay questions

1. **The quantity theory of money hinges on two assumption. Explain**
2. **Why would individuals decide to hold their wealth in the form of money rather than bonds?**