

Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. In each of the following scenarios, which function of money is being served? Indicate M for medium of exchange, S for store of value, or U for unit of account.

\_\_\_\_\_\_ You pay for your lunch with a $5 bill.

\_\_\_\_\_\_ A car is described as being worth $5,000.

\_\_\_\_\_\_ A grandparent puts $200 into a savings account for a grandchild’s future.

\_\_\_\_\_\_ You decide you want to give $10 worth of candy to a friend for his birthday.

\_\_\_\_\_\_ A driver pays a $2 toll.

\_\_\_\_\_\_ You set aside $10 per week to save up for a new computer.

1. Use the following table to evaluate how well each item would perform the functions of money today. Circle the best form of money.
2. Why are credit cards not considered money? Do they serve any of the functions of money?

|  |  |  |  |
| --- | --- | --- | --- |
| Item | Medium of exchange | Store of value | Standard of value |
| Salt |  |  |  |
| Cattle |  |  |  |
| Gold |  |  |  |
| Copper coins |  |  |  |
| Beaver pelts |  |  |  |
| Personal checks |  |  |  |
| Savings account |  |  |  |
| Prepaid phone card |  |  |  |
| Debit card |  |  |  |
| Credit card |  |  |  |
| Bushels of wheat |  |  |  |
| $1 bill |  |  |  |
| $100 bill |  |  |  |

1. Order the list of assets below from 1 to 5, with 1 being most liquid and 5 being least liquid.

\_\_\_\_\_\_ a $10 bill \_\_\_\_\_\_ a traveler’s check \_\_\_\_\_\_ a car \_\_\_\_\_\_ a money market share \_\_\_\_\_\_ a house

1. Use the data below to calculate M1 and M2 in billions of dollars. Assume all items not mentioned are zero.

|  |  |
| --- | --- |
|  | In billions of dollars |
| Checkable deposits (demand deposits, ATM, and credit union share draft accounts) | $1,500 |
| Currency in circulation | $1,000 |
| Savings deposits | $7,000 |
| Small-denomination time deposits | $500 |
| Money market funds | $600 |

M1 = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ M2 = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Let’s do a little research on financial assets…

Provide a specific example of each financial asset and the price at which it is selling.

|  |  |  |
| --- | --- | --- |
| Asset | Example | Price |
| Loan |  |  |
| Stock |  |  |
| Bond |  |  |
| Bank deposit |  |  |
| Loan-backed security |  |  |

How does each asset provide the following necessary functions?

|  |  |  |  |
| --- | --- | --- | --- |
| Asset | Lower transaction costs | Reduce risk | Liquidity |
| Loan |  |  |  |
| Stock |  |  |  |
| Bond |  |  |  |
| Bank deposit |  |  |  |
| Loan-backed security |  |  |  |

Financial intermediaries: Locate a specific example of each financial intermediary in the Denver Metro area. Describe a couple products that each of the firms offers. How does each firm attempt to differentiate itself in a very competitive market for these products? How does each firm provide the necessary functions of lowered transaction costs, reduced risk, and liquidity?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Local example | Products | Firm differentiation | Lowered transaction costs | Reduced risk | Liquidity |
| Mutual funds |  |  |  |  |  |  |
| Pension funds and life insurance companies |  |  |  |  |  |  |
| Banks |  |  |  |  |  |  |