

## ANSWERS AT END

ECONOMICS 353

L. Tesfatsion/Spring Semester 2011

EXERCISE 4: Eight Questions (8 Pts Total)

DUE: Tues., February 8, 12:40pm

**\*\*PLEASE NOTE: EXERCISES ARE DUE AT THE BEGINNING OF CLASS ON THE DUE DATE. LATE EXERCISES WILL NOT BE ACCEPTED AFTER DISCUSSION OF ANSWERS HAS BEGUN – NO EXCEPTIONS\*\***

### EXERCISE INSTRUCTIONS:

- (1) Please **fill in your name and student ID number** on Side 1 of your red bubble sheet and write **353 Exercise 4** in the top margin of Side 1. (Red bubble sheets will be handed out in class each Tuesday and can also be obtained from the Econ Undergraduate Office in 174 Heady during normal business hours M-F.)
- (2) Use a number 2 pencil to **mark your answers** on Side 1 of the bubble sheet to the multiple-choice questions Q1 through Q8 below.
- (3) Each question is worth 1 point. Questions Q1 through Q5 can be answered using required course materials for Mishkin Chapter 3 (“What is Money?”). Questions Q5 through Q8 on “mobile money” can be answered using the accompanying links to online readings.

**Q1 (1 point).** By definition, MONEY has a number of interesting aspects, including: \_\_\_\_\_.

- A. it does not necessarily have to be issued by government or any other official source.
- B. it is defined in terms of its function and not its form.
- C. it is a social construction, in the sense that its value depends on general social acceptance.
- D. all of the above.
- E. only B and C above.

**Q2 (1 Point).** By definition, a COMMODITY MONEY is \_\_\_\_\_.

- A. any form of money that is bought and sold.
- B. any form of money that is bought and sold in the foreign exchange market as a commodity.
- C. any commodity that is generally accepted in payment for goods and services and for the repayment of debts.
- D. any money that finds use as a medium of exchange for commodity trading.

**Q3 ( 1 Point).** Under the Coinage Act of 1965, LEGAL TENDER IN THE U.S. consists of \_\_\_\_\_.

- A. all currency (coins and paper money) issued by the U.S. government.
- B. all forms of money officially backed by gold reserves held by U.S. Federal Reserve Banks
- C. all reserves held in the vaults of U.S. banks.
- D. all forms of money included in the M1 measure of the U.S. money supply

**Q4 (1 Point).** For an economy with exactly 9 distinct types of goods, \_\_\_\_\_ goods-for-goods prices are needed to fully support exchange under a barter payment system while \_\_\_\_\_ money-for-goods prices are needed to fully support exchange under a monetary payment system.

- A. 36; 18
- B. 18; 9
- C. 72; 18
- D. 36; 9
- E. 72; 9

**Q5 (1 Point).** When a person withdraws funds from a U.S. checkable deposit account and deposits them in a (noninstitutional) U.S. money market mutual fund, then \_\_\_\_\_

- A. M1 and M2 both increase for the U.S.
- B. M1 and M2 both decrease for the U.S.
- C. M1 decreases and M2 stays the same for the U.S.
- D. M1 increases and M2 decreases for the U.S.

**SEE THE FOLLOWING PAGE FOR Q6-Q8.**

**Q6-Q8: Questions on “mobile money”.** Please use the following required and recommended online readings to answer Q6-Q8 below.

\*\* [1] P. Dizikes, “Banking on Mobile Money,” MIT News Office, February 23, 2010.

[www.econ.iastate.edu/classes/econ353/tesfatsion/BankingOnMobileMoney.MITFeb2010.htm](http://www.econ.iastate.edu/classes/econ353/tesfatsion/BankingOnMobileMoney.MITFeb2010.htm)

\*\* [2] J. Beaubien, “In Haiti, Cell Phones Serve as Debit Cards,” National Public Radio Report, January 30, 2011.

[www.econ.iastate.edu/classes/econ353/tesfatsion/MobileMoneyHaiti.NPRJan2010.pdf](http://www.econ.iastate.edu/classes/econ353/tesfatsion/MobileMoneyHaiti.NPRJan2010.pdf)

\*\* [3] “Foundation and U.S. Government Give \$2.5 Million Prize for Transforming Banking Sector in Haiti”, News Release, Bill & Linda Gates Foundation, January 10, 2011.

[www.econ.iastate.edu/classes/econ353/tesfatsion/GatesPrizeMobileMoneyHaiti.Jan2010.pdf](http://www.econ.iastate.edu/classes/econ353/tesfatsion/GatesPrizeMobileMoneyHaiti.Jan2010.pdf)

\* [4] W. Jack and T. Suri, “The Economics of M-Pesa,” MIT Working Paper, August 2010.

[www.econ.iastate.edu/classes/econ353/tesfatsion/EconomicsMobileMoney.MIT2010.pdf](http://www.econ.iastate.edu/classes/econ353/tesfatsion/EconomicsMobileMoney.MIT2010.pdf)

**Q6 (1 Point).** According to Ref.[1], the mobile-money system (M-PESA) introduced into Kenya starting in 2007 permits participants \_\_\_\_.

- A. to carry money into or out of the country without limit and without any imposed fees.
- B. to deposit, transfer, and withdraw funds via text messages on their cellphones.
- C. to carry money freely from one part of the country to another, with government-provided insurance.
- D. to deposit, transfer, and withdraw funds at small mobile government-provided banking facilities that the government systematically moves around the country.

**Q7 (1 Point).** According to Ref.[2], the T-Cash service launched in Haiti in 2010 after the devastating earthquake \_\_\_\_.

- A. has permitted the Haitian government to collect back-taxes more easily through cell-phone transfers.
- B. has permitted foreign aid to reach Haiti more efficiently via direct cellphone transfers to local government officials.
- C. has permitted the aid group Mercy Corps to help Haitian earthquake victims by giving them cheap cellphones loaded with “T-cash” that can be used to pay for food and other necessities.
- D. has run into major problems due to the inexperience of Haitians with cellphone technology (e.g., the purchase and sale of cellphone minutes).

**Q8 (1 Point).** According to Ref.[3], the purpose of the Haiti Mobile Money Initiative (HMMI) launched by the Bill & Melinda Gates Foundation and USAID is to \_\_\_\_.

- A. jumpstart the introduction of mobile money for the Haitian people, encouraged by the earlier successful introduction of a mobile-money system in Kenya.
- B. explore ways of introducing a mobile-money system for Haiti that avoids the disastrous experiences of Kenya with its mobile-money system.
- C. encourage profit-seeking foreign companies to compete to develop a mobile-money system for Haiti.
- D. encourage the Haitian government to launch an efficient, centralized, government-managed mobile-money system for Haiti.

**Additional Food for Thought:** In the current crisis in Egypt, the government was apparently able to shut down all cellphone service, at least for awhile (see the pointer to the CBS news story, below). What might be the implications of this for the adoption of mobile-money systems?

CBS News Story

[www.cbsnews.com/stories/2011/01/29/eveningnews/main7297700.shtml](http://www.cbsnews.com/stories/2011/01/29/eveningnews/main7297700.shtml)

**Multiple Choice Answers: Q1-D, Q2-C Q3-A, Q4-D, Q5-C, Q6-B, Q7-C, Q8-A**