Macro – Homework 2

**Multiple Choice**

*Identify the choice that best completes the statement or answers the question.*

\_\_\_\_ 1. Which of the following is correct?

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| a. | Some bonds have terms as short as a few months. |
| b. | Because they are so risky, junk bonds pay a low rate of interest. |
| c. | Corporations buy bonds to raise funds. |
| d. | All of the above are correct. |

\_\_\_\_ 2. Consider the expressions *T* - *G* and *Y* - *T* - *C*. Which of the following statements is correct?

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| --- | --- |
| a. | Each one of these is equal to national saving. |
| b. | Each one of these is equal to public saving. |
| c. | The first of these is private saving; the second one is public saving. |
| d. | The first of these is public saving; the second one is private saving. |

\_\_\_\_ 3. Suppose that in a closed economy GDP is equal to 11,000, taxes are equal to 2,500, consumption equals 7,000, and government purchases equal 3,000. What are private saving and public saving?

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| --- | --- |
| a. | 1,500 and -500, respectively |
| b. | 1,500 and 500, respectively |
| c. | 1,000 and -500, respectively |
| d. | 1,000 and 500, respectively |

\_\_\_\_ 4. The source of the supply of loanable funds

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| a. | is saving and the source of demand for loanable funds is investment. |
| b. | is investment and the source of demand for loanable funds is saving. |
| c. | and the demand for loanable funds is saving. |
| d. | and the demand for loanable funds is investment. |

\_\_\_\_ 5. If the demand for loanable funds shifts to the right, then the equilibrium interest rate

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| a. | and quantity of loanable funds rise. |
| b. | and quantity of loanable funds fall. |
| c. | rises and the quantity of loanable funds falls. |
| d. | falls and the quantity of loanable funds rises. |

\_\_\_\_ 6. If the inflation rate is 2 percent and the real interest rate is 3 percent, then the nominal interest rate is

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| a. | 5 percent. |
| b. | 1 percent. |
| c. | 1.5 percent |
| d. | 0.67 percent. |

\_\_\_\_ 7. If the interest rate is 7.5 percent, then what is the present value of $4,000 to be received in 6 years?

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| a. | $2,420.68 |
| b. | $2,591.85 |
| c. | $2,996.33 |
| d. | $3,040.63 |

\_\_\_\_ 8. Imagine that someone offers you $100 today or $200 in 10 years. You would prefer to take the $100 today if the interest rate is

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| a. | 4 percent. |
| b. | 5 percent. |
| c. | 6 percent. |
| d. | None of the above are correct. |

\_\_\_\_ 9. Which of the following is adverse selection?

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| a. | the risk associated with selecting stocks in only a few specific companies |
| b. | the risk that a person will become overconfident in his ability to select stocks |
| c. | a high-risk person being more likely to apply for insurance |
| d. | after obtaining insurance a person having less incentive to be careful |

\_\_\_\_ 10. When you rent a car, you might treat it with less care than you would if it were your own. This is an example of

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| a. | market risk. |
| b. | moral hazard. |
| c. | adverse selection. |
| d. | risk aversion. |

\_\_\_\_ 11. If the *efficient markets hypothesis* is correct, then

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| a. | the number of shares of stock offered for sale exceeds the number of shares of stock that people want to buy. |
| b. | the stock market is informationally efficient. |
| c. | stock prices never follow a random walk. |
| d. | All of the above are correct. |

\_\_\_\_ 12. Dividends

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| a. | are the rates of return on mutual funds. |
| b. | are cash payments that companies make to shareholders. |
| c. | are the difference between the price and present value per share of a stock. |
| d. | are the rates of return on a company’s capital stock. |

\_\_\_\_ 13. The natural rate of unemployment is the

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| a. | unemployment rate that would prevail with zero inflation. |
| b. | rate associated with the highest possible level of GDP. |
| c. | difference between the long-run and short-run unemployment rates. |
| d. | amount of unemployment that the economy normally experiences. |

\_\_\_\_ 14. Zeeman is a college student who is not working or looking for a job. The Bureau of Labor Statistics counts Zeeman as

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| a. | unemployed and in the labor force. |
| b. | unemployed, but not in the labor force. |
| c. | in the labor force, but not unemployed. |
| d. | neither in the labor force nor unemployed. |

\_\_\_\_ 15. Frictional unemployment is inevitable because

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| a. | sectoral shifts are always happening. |
| b. | there is a federal minimum-wage law in the U.S. |
| c. | some people do not want to be employed. |
| d. | unions are very popular in the U.S. |

\_\_\_\_ 16. Collective bargaining refers to

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| a. | the process by which the government sets exemptions from the minimum wage law. |
| b. | setting the same wage for all employees to prevent conflict among workers. |
| c. | firms colluding to set the wages of employees in order to keep them below equilibrium. |
| d. | the process by which unions and firms agree on the terms of employment. |

\_\_\_\_ 17. The theory of efficiency wages explains why

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| a. | setting wages at the equilibrium level may increase unemployment. |
| b. | it may be in the best interest of firms to offer wages that are above the equilibrium level. |
| c. | the most efficient way to pay workers is to pay them according to their skills. |
| d. | it is efficient for firms to set wages at the equilibrium level. |

\_\_\_\_ 18. When we want to measure and record economic value, we use money as the

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| a. | liquid asset. |
| b. | medium of exchange. |
| c. | unit of account. |
| d. | store of value. |

\_\_\_\_ 19. Which list ranks assets from most to least liquid?

|  |  |
| --- | --- |
| a. | currency, fine art, stocks |
| b. | currency, stocks, fine art |
| c. | fine art, currency, stocks |
| d. | fine art, stocks, currency |

\_\_\_\_ 20. Paper dollars

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| --- | --- |
| a. | are commodity money and gold coins are fiat money. |
| b. | are fiat money and gold coins are commodity money. |
| c. | and gold coins are both commodity monies. |
| d. | and gold coins are both fiat monies. |

\_\_\_\_ 21. Mia puts money into a piggy bank so she can spend it later. What function of money does this illustrate?

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| a. | store of value |
| b. | medium of exchange |
| c. | unit of account |
| d. | None of the above is correct. |

\_\_\_\_ 22. The Federal Reserve

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| --- | --- |
| a. | is a central bank; it is responsible for conducting the nation’s monetary policy; and it plays a role in regulating banks. |
| b. | is a central bank; it is responsible for conducing the nation’s monetary policy; but it plays no role in regulating banks. |
| c. | is not a central bank; it is responsible for conducing the nation’s monetary policy; and it plays a role in regulating banks. |
| d. | is a central bank; it plays a role in regulating banks; but it is not responsible for conducting the nation’s monetary policy. |

\_\_\_\_ 23. If the reserve ratio for all banks is 20 percent, then $100 of new reserves can generate

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| a. | $60 of new money in the economy. |
| b. | $250 of new money in the economy. |
| c. | $500 of new money in the economy. |
| d. | $2,000 of new money in the economy. |

\_\_\_\_ 24. To increase the money supply, the Fed could

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| a. | sell government bonds. |
| b. | decrease the discount rate. |
| c. | increase the reserve requirement. |
| d. | None of the above is correct. |

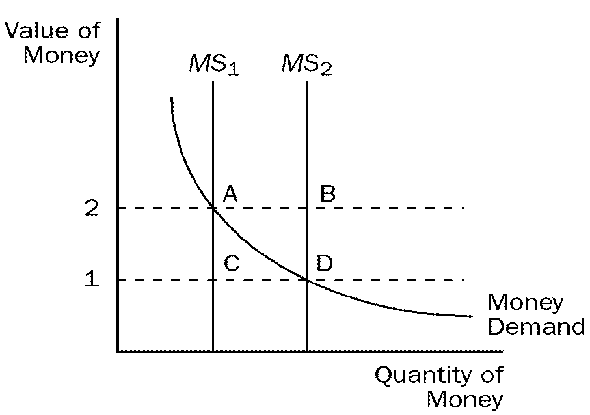
\_\_\_\_ 25. If velocity = 3.5, the quantity of money = 15,000, and the price level = 1.2, then the real value of output is

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| --- | --- |
| a. | 3,571.43. |
| b. | 4,285.71. |
| c. | 5,142.86. |
| d. | 43,750.00. |

\_\_\_\_ 26. The inflation tax refers to

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| a. | the revenue a government creates by printing money. |
| b. | higher inflation which requires more frequent price changes. |
| c. | the idea that, other things the same, an increase in the tax rate raises the inflation rate. |
| d. | taxes being indexed for inflation. |

***Figure 30-1***



\_\_\_\_ 27. **Refer to Figure 30-1**. When the money supply curve shifts from *MS*1 to *MS*2,

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| --- | --- |
| a. | the demand for goods and services decreases. |
| b. | the economy's ability to produce goods and services increases. |
| c. | the equilibrium price level increases. |
| d. | the equilibrium value of money increases. |

\_\_\_\_ 28. When inflation rises, people will desire to hold

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| --- | --- |
| a. | less money and will go to the bank less frequently. |
| b. | less money and will go to the bank more frequently. |
| c. | more money and will go to the bank less frequently. |
| d. | more money and will go to the bank more frequently. |

\_\_\_\_ 29. Wealth is redistributed from creditors to debtors when inflation was expected to be

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| --- | --- |
| a. | high and it turns out to be high. |
| b. | low and it turns out to be low. |
| c. | low and it turns out to be high. |
| d. | high and it turns out to be low. |