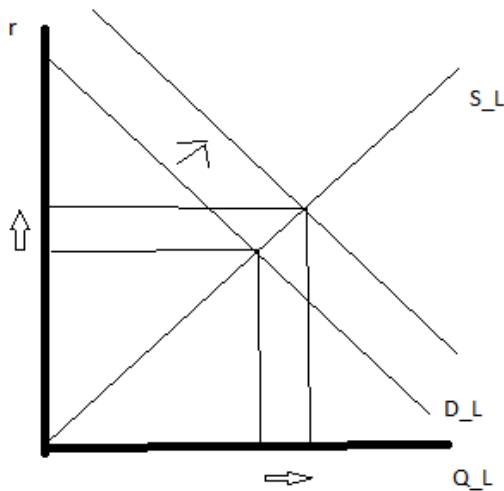


1. Treasury bonds can last one month up to 30 years... so A sounds true. B is false because junk bonds are risky and thus should come with a high reward/interest rate. C is false because corporations SELL bonds to raise funds. (A)
2. This is the exact definition. If you add them up then you get national or domestic savings. (D)
3. If we know 2 then we can do 3. OK so $11000 - 2500 - 7000 = \text{private savings} = 1500$.
 $2500 - 3000 = \text{public savings} = -500$. (A)
4. Something to remember from your notes. (A)
5. When in doubt, graph it out. (A)



6. Real int. rate + inflation = nominal int. rate.... So $2 + 3 =$ where's that calculator? (A)
7. Oh phooey. Where IS that calculator? OK so $PV \times (1 + r)^t = FV$. Or $PV = FV / (1 + r)^t$ so $PV = 4000 / (1 + 0.075)^6 = \2591 . (B)
8. Another one! If the interest rate was 4% then in 10 years \$100 would turn into \$148... so \$200 in 10 years is more than \$148. If the interest rate was 6% then in 10 years \$100 would turn into \$179 so that's not enough either. My guess is that 5% would fall in between \$148 and \$179. None of these interest rates would make \$100 today better than \$200 in 10 years. (D)
9. Adverse selection is when a risky person BUYS insurance. Moral hazard is when someone does risky things AFTER having bought insurance. A is talking about firm-specific risk. B is just baloney. C sounds right because it's about a person who is already risky and wants insurance. D looks like moral hazard to me. (C)
10. This is moral hazard. Have you ever taken a rental to the car wash? Of course not. True story: My wife and I once showed up at the rental car counter and being frugal I typically register for a pretty cheap rental. But they only had a minivan, some Pontiac and an H2 hummer left. We took the hummer and I thought curbs were optional.
11. A is just a surplus so the price would fall. B is the textbook definition of the efficient market hypothesis. If information is random and the efficient market hypothesis is true then we would expect the market to follow a random walk so C is wrong. (B)
12. The textbook definition is B. (B)
13. Another textbook definition. You can also think of the natural rate of unemployment as the prevailing unemployment rate when the economy is growing at an average rate. (D)
14. Full-time students are not in the labor force unless they have a job in which case they are considered employed in the labor force. (D)
15. With frictional unemployment people are turning down job offers or are waiting for a job that's a good fit. Under a sectoral shift people stop buying one type of good/service and shift consumption to some other sector. Remember Blockbuster Video renting DVDs/VHS etc... Online streaming created a sectoral shift away from Blockbuster but I'm certain that the CPAs at Blockbuster didn't take the first barista job available. (A)

16. A is lobbying. B almost never happens but for some examples see Planet Money podcast episode 550. C is an illegal practice (Google and Apple tried to do this). (D)
17. A is just garbage words. B is the textbook definition of efficiency wages. Efficiency wages are a good idea when you can't measure worker behavior/effort and you want to reduce turnover or in poorer countries efficiency wages can allow workers to live more healthy lives and reduce sick days. C is basically how baseball players are paid because it's very easy to calculate their skill/value. D is designed to confuse students who prefer the beach to studying. (B)
18. Liquidity is the ability to easily turn an asset into other goods/services so not A. A medium of exchange is a common, acceptable method of payment like cash, check or Paypal so not B. C looks good; a unit of account is an easy way to measure value. Can you imagine if you had to use DVDs to measure value. Is Die Hard worth a sandwich? Die Hard 2 certainly isn't. I've just started watching the Returned – super spooky. Totally worth a sandwich maybe two sandwiches. Oh and store of value is associated with an asset's ability to retain its value over time. So a DVD of Die Hard would be a totally better than a sandwich to store value. (C)
19. Currency is the most liquid and stocks can be sold and turned into cash pretty quickly. It takes a lot longer to turn fine art into cash so it's not very liquid at all. (B)
20. From notes. (B)
21. The very definition of a store of value. (A)
22. From textbook and notes. I wish there were more graphs. (A)
23. Money multiplier time! $1/.2 = 5$ so \$100 of additional deposits creates \$500 of new money supply. (C)
24. Selling gov't bonds DECREASE the money supply. Raising the reserve requirement would also DECREASE the money supply as it decreases the money multiplier effect. Lowering interest rates (fed funds or discount) INCREASES the money supply. (B)
25. $M \times V = P \times Y$. We want to find Y so we can rearrange the equation so that $M \times V/P = Y$. So $15,000 \times 3.5/1.2 = 43,750$. (D)
26. This is just the definition. (A)
27. A graph! Finally! A isn't true because increased money supply is more likely to increase the demand for goods and services. B isn't true because of money neutrality. C is true because the value of money is falling (the price level is rising and a \$1 won't be able to buy what is used to buy). D isn't true because the value of money falls as shown in the graph. (C)
28. High inflation leads to high nominal interest rates according to the Fisher effect. So if you leave your money in a bank then at least you'll earn an interest return and hopefully keep some buying power. If you hold cash then the buying power of that cash diminishes with inflation. So keeping money in the bank is better under high inflation than holding onto cash. The problem with keeping money in the bank is that you'll need to deposit cash as quickly as possible and if you don't have a lot of cash in your pocket then you'll need to go to the bank to make transactions. That's more trips to the bank. Maybe you can get some of those little lollipops? (B)
29. Let's suppose that you borrow \$10,000 in student loans but by the time you graduate unexpectedly high inflation leads to double prices and salaries. Now the real buying power of \$10,000 cash is more like \$5000. Debtors benefit from unexpectedly high inflation and creditors lose out. The opposite is also true under unexpectedly low inflation. Expected inflation will just be priced into nominal interest rates. (C)