

Macro – Homework 2

Multiple Choice

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

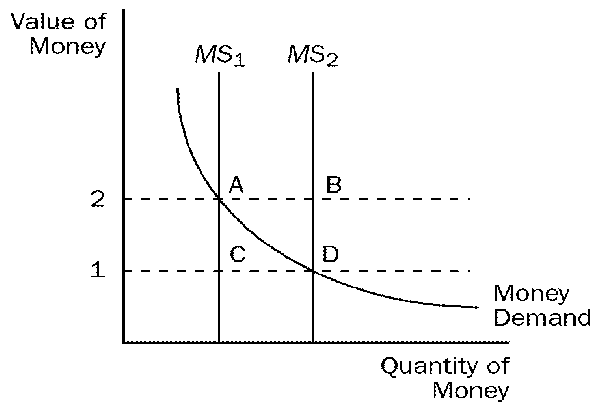
- _____ 1. Which of the following is correct?
- Some bonds have terms as short as a few months.
 - Because they are so risky, junk bonds pay a low rate of interest.
 - Corporations buy bonds to raise funds.
 - All of the above are correct.
- _____ 2. Consider the expressions $T - G$ and $Y - T - C$. Which of the following statements is correct?
- Each one of these is equal to national saving.
 - Each one of these is equal to public saving.
 - The first of these is private saving; the second one is public saving.
 - 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?
- 1,500 and -500, respectively
 - 1,500 and 500, respectively
 - 1,000 and -500, respectively
 - 1,000 and 500, respectively
- _____ 4. The source of the supply of loanable funds
- is saving and the source of demand for loanable funds is investment.
 - is investment and the source of demand for loanable funds is saving.
 - and the demand for loanable funds is saving.
 - and the demand for loanable funds is investment.
- _____ 5. If the demand for loanable funds shifts to the right, then the equilibrium interest rate
- and quantity of loanable funds rise.
 - and quantity of loanable funds fall.
 - rises and the quantity of loanable funds falls.
 - 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
- 5 percent.
 - 1 percent.
 - 1.5 percent
 - 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?
- \$2,420.68
 - \$2,591.85
 - \$2,996.33
 - \$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
- 4 percent.

- b. 5 percent.
 - c. 6 percent.
 - d. None of the above are correct.
- _____ 9. Which of the following is adverse selection?
- 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
- a. market risk.
 - b. moral hazard.
 - c. adverse selection.
 - d. risk aversion.
- _____ 11. If the *efficient markets hypothesis* is correct, then
- 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
- 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
- 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
- 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
- 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
- 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
- setting wages at the equilibrium level may increase unemployment.
 - it may be in the best interest of firms to offer wages that are above the equilibrium level.
 - the most efficient way to pay workers is to pay them according to their skills.
 - 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
- liquid asset.
 - medium of exchange.
 - unit of account.
 - store of value.
- ___ 19. Which list ranks assets from most to least liquid?
- currency, fine art, stocks
 - currency, stocks, fine art
 - fine art, currency, stocks
 - fine art, stocks, currency
- ___ 20. Paper dollars
- are commodity money and gold coins are fiat money.
 - are fiat money and gold coins are commodity money.
 - and gold coins are both commodity monies.
 - 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?
- store of value
 - medium of exchange
 - unit of account
 - None of the above is correct.
- ___ 22. The Federal Reserve
- is a central bank; it is responsible for conducting the nation's monetary policy; and it plays a role in regulating banks.
 - is a central bank; it is responsible for conducting the nation's monetary policy; but it plays no role in regulating banks.
 - is not a central bank; it is responsible for conducting the nation's monetary policy; and it plays a role in regulating banks.
 - 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
- \$60 of new money in the economy.
 - \$250 of new money in the economy.
 - \$500 of new money in the economy.
 - \$2,000 of new money in the economy.
- ___ 24. To increase the money supply, the Fed could
- sell government bonds.
 - decrease the discount rate.
 - increase the reserve requirement.
 - 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
- 3,571.43.
 - 4,285.71.
 - 5,142.86.
 - 43,750.00.
- ___ 26. The inflation tax refers to
- the revenue a government creates by printing money.
 - higher inflation which requires more frequent price changes.
 - the idea that, other things the same, an increase in the tax rate raises the inflation rate.
 - 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 ,
- the demand for goods and services decreases.
 - the economy's ability to produce goods and services increases.
 - the equilibrium price level increases.
 - the equilibrium value of money increases.
- ___ 28. When inflation rises, people will desire to hold
- less money and will go to the bank less frequently.
 - less money and will go to the bank more frequently.
 - more money and will go to the bank less frequently.
 - more money and will go to the bank more frequently.
- ___ 29. Wealth is redistributed from creditors to debtors when inflation was expected to be
- high and it turns out to be high.
 - low and it turns out to be low.
 - low and it turns out to be high.
 - high and it turns out to be low.