

Name: _____

Roll Number: _____

- a. Each Question is worth 1.5 points. Wrong answers are -0.3 (negative marking), no answers are 0 points.
- b. Please circle the right answer. Each question has ONLY ONE right answer.

Answer the following questions:

1. In Gordon's growth model, which of the following is not constant over time (when evaluated at a given period of time)
 - a. g
 - b. Dividends.**
 - c. k_e .
 - d. None of the above.
2. According to adaptive expectations
 - a. Changes in expectations will occur slowly over time as data changes.**
 - b. Changes in expectations will occur as soon as new data is available over time as data changes.
 - c. Expectations are not only based on past experience, but on other factors too.
 - d. Both c. and b.
 - e. Both c. and a.**

Answer is a. but the way it is written in the slides appears a bit confusing so I will accept both a. and e.
3. In the context of our model of the stock market, "optimal forecast" means
 - a. The forecasts are always right.
 - b. The forecasts use all existing information
 - c. The forecasts use all available information.**
 - d. The forecasters claim that unless there is an exogenous shock, there are no uncertainty associated with their estimation.
4. When $R^{of} > R^*$, if P_t does not change, there are/is
 - a. No issues as such, and this is common.
 - b. Unexploited profit opportunities.**
 - c. Adjustment in R^{of}
 - d. None of the above
5. As per Generalized Dividend Valuation Model, if $D_1 = 0$, P_0 will be given by $\sum_{t=2}^{\infty} \frac{D_t}{(1+k_e)^t}$ is the best answer. However, $\sum_{t=1}^{\infty} \frac{D_t}{(1+k_e)^t}$ won't be wrong as such. One can also write $\sum_{t=2}^n \frac{D_t}{(1+k_e)^t} + \frac{P_n}{(1+k_e)^n}$, i.e., in the n form.
6. What is the term that equates D to MB ?
 - a. $\frac{1+c}{r+e+c}$
 - b. $\frac{1}{r+e+c}$**

- c. $\frac{r+e}{e+c}$
 d. None of the above.
7. The opportunity costs of holding excess reserves is given by
- $(i_d - i_{or})$
 - $(i_d - i_{ff})$
 - $-(i_{or} - i_{ff})$
 - None of the above

In the context of the federal funds market, the answer is c. But None of the above can be the right answer too, in case the going interest in the market for regular lending to customers. This quiz I am choosing to be a little less picky, so will allow both.

8. If non borrowed reserves increases and i_{ff} falls,
- i_{ff} was at its upper bounds i_d
 - i_{ff} was between i_d and i_{or}
 - i_{ff} was at i_{or}
 - Either a. or b.
9. Open market operations have no effect on the federal funds rate when???

Any one of the following answers is acceptable:

- $i_{ff} = i_d$
- $i_{ff} = i_{or}$
- $i_{ff} = i_d = i_{or}$ (Not ideal but special case)

(Note that if the magnitude of the operation is big enough, it may still have an effect.
 Marks will be given regardless of whether you mention this.)

10. Out of r , e and c , which is fundamentally dependant on bank behaviour? e