ECO 223 – Winter 2023 Quiz 1 (Solutions)

Date: 22nd January, 2024 Total Marks – 15

Weightage Towards Final Grade – 15% Time: 20 Minutes

Name: _____ Roll Number: _____

a. Each Question is worth 1.5 points
b. Please circle the right answer. Each question has **ONLY ONE** right answer.
c. Negative marking for wrong answer: -0.3
d. Correct Answers in bold.

Answer the following questions:

1. Moral Hazard problem occurs:
    a. Before the transaction.
    b. After the transaction.
    c. Because of illegal transactions.
    d. None of the above.

2. Which of these are considered transaction costs.
    a. Time involved in a lender and a borrower finding each other
    b. Rate of interest
    c. Dividends
    d. None of the above.
    e. All of the above.

3. Which of these characteristics of a financial institution is most likely to lead to conflict of interest?
    a. Economies of scale.
    b. Adverse selection.
    c. Economies of scope.
    d. None of the above.
4. When a rich person gives a poor person money this is
    a. Indirect finance
    b. A loan
    c. Something similar to selling shares
    d. All of the above.
    e. None of the above.
    **Giving money is just a transfer of funds.
5. Inflation reduces money's ability to act as (give most correct answer)
    a. A unit of account
    b. Store of value
    c. Medium of exchange
    d. Inflation has nothing to do with this.
6. In the absence of money, if there are N goods, the total number of prices for a given good would be
    a. NC2 (Combination).

b. N-1.

c. 2N

d. None of the above.

The question says how many prices for a single good, not how many total prices. Each good has a price in terms of every other good.

7. Which of these is a major function of money?
   a. Wealth management
   b. Unit of exchange
   c. Store of value
   d. Both a. & c.
   e. Both a. & b.
   f. Both b. & c.
8. The key difference between cryptocurrency and other currency (not legal aspects) lies in

   a. How Money Supply is determined.
   b. How Money Demand is determined
   c. Equilibrium follows a different pattern.
   d. Both a and b.

9. In a consol, T=? **Answer is ∞ .**

10. Consider the following cashflow stream:

$$\$8000 = \frac{\$1000}{1+r} + \frac{\$1000}{(1+r)^2} + \frac{\$1000}{(1+r)^3} + \frac{\$1000}{(1+r)^4} + \frac{\$1000}{(1+r)^5} + \frac{\$10000}{(1+r)^5}$$

Find r

   a. 0.100
   b. 0.092
   c. 0.068
   d. 0.161

Easily found using the relationship between price, face value and coupon rate. Given the options, no need to calculate.