

## Feedback — Lecture Ten Quiz [Help](#)

You submitted this quiz on **Wed 27 Nov 2013 3:02 PM PST**. You got a score of **25.00** out of **25.00**.

### Question 1

The upward sloping supply curve of loanable funds reflects the idea that:

Your Answer	Score	Explanation
Households prefer future consumption to present consumption	Correct 1.00	
Households prefer present consumption to future consumption		
Households are indifferent to present consumption versus future consumption		
Don't know		
Total	1.00 / 1.00	

### Question 2

The theory of loanable funds is based on the assumption that:

Your Answer	Score	Explanation
1. Businesses supply funds for investment by abstaining from production and accumulating savings over time	Correct 1.00	
2. Households supply funds for investment by abstaining from consumption and accumulating savings over time		
Both 1 and 2		
Don't know		
Total	1.00 / 1.00	

### Question 3

Suppose you own an apartment building that generates rental payments of \$10,000 per month from your tenants, and you are thinking of selling the building. The lump sum payment you would accept will:

Your Answer	Score	Explanation
Decrease with the interest rate	Correct 1.00	
Increase with the interest rate		
Be independent of the interest rate		
Don't know		
Total	1.00 / 1.00	

### Question 4

Capital analysis can help business executives answer questions like:

Your Answer	Score	Explanation
Should I invest in new plant and equipment?		

## How much inventory should I maintain?

Correct 1.00

Total

1.00 / 1.00

Financial capital includes:

### Score

### Explanation

## 2. Stocks and bonds

Correct 1.00

Don't know

Total

1.00 / 1.00

Which of these is NOT a category of capital goods?

## Score

### Explanation

## Inventories

Non-durable goods

Correct 1.00

Don't know

Total

1.00 / 1.00

The cost of money is defined as:

**Score**

### Explanation

Correct 1.00

Both 1 and 2

Don't know

Total

1.00 / 1.00

The amount of money that must be paid for the use of one dollar of loanable funds for a year is:

**Score**

### Explanation

2. The price paid for the use of loanable funds

Correct 1.00

Don't know

Total

1.00 / 1.00

### Question 9

Suppose I buy a bottle of grape juice for \$10 and then sell it a year later as wine for \$11. What is my rate of return on this investment assuming that I have no other expenses?

Your Answer	Score	Explanation
1%		
5%		
10%	Correct 1.00	
Don't know		
Total	1.00 / 1.00	

### Question 10

Depreciation is a:

Your Answer	Score	Explanation
1. Flow concept	Correct 1.00	
2. Stock concept		
Both 1 and 2		
Don't know		
Total	1.00 / 1.00	

### Question 11

When depreciation over a period of time exceeds investment over the same period of time:

Your Answer	Score	Explanation
The capital stock will decrease	Correct 1.00	
The capital stock will increase		
The capital stock is unaffected		
Don't know		
Total	1.00 / 1.00	

### Question 12

Suppose the firm ends its fiscal year with a capital stock of \$1,000,000. Over the course of the current year, the firm invests \$100,000 in new plant and equipment. At the same time, it incurs depreciation of \$50,000.

Your Answer	Score	Explanation
The capital stock has decreased		
The capital stock has increased	Correct 1.00	
The capital stock is unaffected		
Don't know		
Total	1.00 / 1.00	

### Question 13

The Theory of Loanable Funds states that firms will demand loanable funds to invest in new projects so

long as:

Your Answer	Score	Explanation
The rate of return on capital is greater than or equal to the interest rate paid on funds borrowed	Correct 1.00	
The rate of return on capital is less than the interest rate paid on funds borrowed		
The rate of return on capital reaches double digits		
Don't know		
Total	1.00 / 1.00	

### Question 14

The interest rate:

Your Answer	Score	Explanation
1. Rations out society's scarce supply of capital goods for the uses that have the lowest rates of return		
2. Induces people to sacrifice current consumption in order to increase the stock of capital	Correct 1.00	
Both 1 and 2		
Don't know		
Total	1.00 / 1.00	

### Question 15

Suppose the federal government significantly expands the social security retirement program. What is this likely to do to the supply curve for loanable funds and the market rate of interest?

Your Answer	Score	Explanation
Shift the curve inward and decrease the market rate of interest		
Shift the curve inward and increase the market rate of interest	Correct 1.00	
Shift the curve outward and decrease the market rate of interest		
Don't know		
Total	1.00 / 1.00	

### Question 16

Suppose the economy had been in a deep recession, but now is moving towards full employment as businesses increase their investment in new plant and equipment. What do you think will happen to the interest rate?

Your Answer	Score	Explanation
Fall		
Rise	Correct 1.00	
Stay the same		
Don't know		

Total 1.00 / 1.00

### Question 17

What tool can you use to evaluate an investment when your capital outlay occurs today but the benefits from that investment come in the form of a revenue stream over many years?

Your Answer	Score	Explanation
1. Net present value		
2. Present discounted value		
Both 1 and 2	Correct 1.00	
Don't know		
Total	1.00 / 1.00	

### Question 18

Net Present Value is:

Your Answer	Score	Explanation
1. Defined as the dollar value tomorrow of a stream of income today.		
2. Measured by calculating how much money invested today would be needed, at the going interest rate, to generate the asset's future stream of receipts.	Correct 1.00	
Both 1 and 2		
Option text		
Total	1.00 / 1.00	

### Question 19

A perpetuity is:

Your Answer	Score	Explanation
1. An asset that lasts forever		
2. Pays a certain amount of dollars per year from now to eternity		
Both 1 and 2	Correct 1.00	
Don't know		
Total	1.00 / 1.00	

### Question 20

When an investment will generate an undiscounted sum of money greater than the initial investment outlay, your company should:

Your Answer	Score	Explanation
Always make the investment		
Never make the investment		
Make the investment only if the net present value is positive	Correct 1.00	
Don't know		
Total	1.00 / 1.00	

### Question 21

The range of interest rates is based on the:

Your Answer	Score	Explanation
1. Degree of loan risk		
2. Length or maturity of the loan		
Both 1 and 2	Correct 1.00	
Don't know		
Total	1.00 / 1.00	

### Question 22

The greater the risk:

Your Answer	Score	Explanation
The higher the interest rate	Correct 1.00	
The lower the interest rate		
Risk has no impact on the interest rate		
Don't know		
Total	1.00 / 1.00	

### Question 23

The shorter the term of the loan:

Your Answer	Score	Explanation
The higher the interest rate		
The lower the interest rate	Correct 1.00	
The length of term has no impact on the interest rate		
Don't know		
Total	1.00 / 1.00	

### Question 24

Tax-exempt loans like state and municipal bonds can typically:

Your Answer	Score	Explanation
Attract lenders even though they pay lower interest rates	Correct 1.00	
Only attract lenders by paying higher interest rates		
Tax-exempt status has no impact on the interest rate		
Don't know		
Incorrect option 1		
Incorrect option 2		
Incorrect option 3		
Total	1.00 / 1.00	

### Question 25

Assume your marginal tax rate is 20% and you must choose between a \$100,000 tax-free municipal

bond paying you an annual payment of \$6,000 at 6% versus a \$100,000 corporate bond paying out \$8,000 a year at 8%. Which would you choose to get the best after-tax return?

<b>Your Answer</b>	<b>Score</b>	<b>Explanation</b>
The corporate bond	Correct 1.00	
The tax-free muni		
Either is fine		
Don't know		
Total	1.00 / 1.00	