**DMS 201: Introduction to Management**

**Quiz 1**

**Module 2: Financial Management**

**Set A**

**Instructions**

1. Attempt all the questions.
2. Check only one option against each question.
3. Use of calculator is allowed.
4. There is NO negative marking.
5. Write your Name and Roll No. below.

NAME: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Roll No.: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Ms. Lane borrowed $1,000 from her bank for one year at an interest rate of 10 percent. During that year, the price level went up by 15 percent. Which of the following statements is correct?

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| --- | --- |
| a. | Ms. Lane will repay the bank fewer dollars than she initially borrowed. |
| b. | Ms. Lane's repayment will give the bank less purchasing power than it originally loaned her. |
| c. | Ms. Lane's repayment will give the bank greater purchasing power than it originally loaned her. |
| d. | Ms. Lane's repayment will give the bank the same purchasing power that it originally loaned her. |

2. Suppose that twenty-five years ago a country had nominal GDP of $1,000, a GDP deflator of 200, and a population of 100. Today it has nominal GDP of $3,000, a GDP deflator of 400, and population of 150. What happened to the real GDP per person?

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| --- | --- |
| a. | It more than doubled. |
| b. | It increased, but it less than doubled. |
| c. | It was unchanged. |
| d. | It decreased. |

3. In a market economy, supply and demand determine

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| --- | --- |
| a. | both the quantity of each good produced and the price at which it is sold. |
| b. | the quantity of each good produced but not the price at which it is sold. |
| c. | the price at which each good is sold but not the quantity of each good produced. |
| d. | neither the quantity of each good produced nor the price at which it is sold. |

4.Which of the following is *not* a question that macroeconomists address?

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| --- | --- |
| a. | Why is average income high in some countries while it is low in others? |
| b. | Why does the price of oil rise when war erupts in the Middle East? |
| c. | Why do production and employment expand in some years and contract in others? |
| d. | Why do prices rise rapidly in some periods of time while they are more stable in other periods? |

5. In the economy of Ukzten in 2010, consumption was 60% of GDP, government purchases were $212, imports were $67 and 67% of the value of exports, investment was one-half of the value of consumption. What was Ukzten’s GDP in 2010?

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| --- | --- |
| a. | $1450 |
| b. | $1790 |
| c. | $2450 |
| d. | $2790 |

6. Corey deposits $1,000 in a savings account that pays an annual interest rate of 5 percent. Over the course of a year, the inflation rate is 1.7 percent. At the end of the year, Corey has

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| --- | --- |
| a. | $17 more in his account, and his purchasing power has increased by $10. |
| b. | $30 more in his account, and his purchasing power has increased by $50. |
| c. | $40 more in his account, and his purchasing power has increased by $33. |
| d. | $50 more in his account, and his purchasing power has increased by $33. |

7. The consumer price index was 200 in 2008 and 190 in 2009. The nominal interest rate during this period was 4.5 percent. What was the real interest rate during this period?

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| --- | --- |
| a. | - 0.75 percent |
| b. | - 0.5 percent |
| c. | 9.5 percent |
| d. | 9.75 percent |

8. A worker received $5 for a daily wage in 1930. What is the value of that wage today if the CPI was 17 in 1930 and is 215 today?

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| --- | --- |
| a. | 40 cents |
| b. | $5 |
| c. | $63.24 |
| d. | $632.40 |

9. During a certain year, the consumer price index increased from 150 to 159 and the purchasing power of a person’s bank account increased by 3.5 percent. For that year,

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| a. | the nominal interest rate was 6 percent. |
| b. | the nominal interest rate was 9.5 percent. |
| c. | the inflation rate was 3.5 percent. |
| d. | the inflation rate was 9.5 percent. |

10. Suppose you know the value of the consumer price index (CPI) in year 1 as well as the inflation rate in year 2. Which of the following equations is valid for the CPI in year 2?

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| --- | --- |
| a. | CPI in year 2 = |
| b. | CPI in year 2 = |
| c. | CPI in year 2 = |
| d. | CPI in year 2 = |

11. What will happen to the equilibrium price of new textbooks if more students attend college, paper becomes cheaper, textbook authors accept lower royalties, and fewer used textbooks are sold?

|  |  |
| --- | --- |
| a. | Price will rise. |
| b. | Price will fall. |
| c. | Price will stay exactly the same. |
| d. | The price change will be ambiguous. |

12. In communism, central planners decide which of the following?

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| a. | what goods and services will be produced |
| b. | how much will be produced |
| c. | who produced and consumed the goods and services |
| d. | All of the above are correct. |

13. Suppose a typical worker in India can produce 32 units of product in an eight-hour day, while a typical worker in Bangladesh can produce 30 units of product in a 10-hour day. We can conclude that

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| a. | worker productivity in Bangladesh is higher than in India. |
| b. | the standard of living will likely be higher in India than in Bangladesh. |
| c. | productivity is 4 units per hour for the worker in Bangladesh and 3 units per hour for the worker in India. |
| d. | there will be no difference between the standard of living in India and Bangladesh. |

14. The overriding reason why households and societies face many decisions is that

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| a. | resources are scarce. |
| b. | goods and services are not scarce. |
| c. | incomes fluctuate with business cycles. |
| d. | people, by nature, tend to disagree. |

15. Suppose that over the last twenty-five years a country's nominal GDP grew to three times its former size. In the meantime, population grew by 40 percent and prices rose by 100 percent. What happened to real GDP per person?

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| --- | --- |
| a. | It more than doubled. |
| b. | It increased, but it less than doubled. |
| c. | It was unchanged. |
| d. | It decreased. |

16. Productivity is defined as the

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| a. | amount of goods and services produced from each unit of labor input. |
| b. | number of workers required to produce a given amount of goods and services. |
| c. | amount of labor that can be saved by replacing workers with machines. |
| d. | actual amount of effort workers put into an hour of working time. |

17. In the former Soviet Union, producers were paid for meeting output targets, not for selling products. Under those circumstances, what were the economic incentives for producers?

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| --- | --- |
| a. | to produce good quality products so that society would benefit from the resources used |
| b. | to conserve on costs, so as to maintain efficiency in the economy |
| c. | to produce enough to meet the output target, without regard for quality or cost |
| d. | to produce those products that society desires most |

18. When economists talk about growth in the economy, they measure that growth as the

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| --- | --- |
| a. | absolute change in nominal GDP from one period to another. |
| b. | percentage change in nominal GDP from one period to another. |
| c. | absolute change in real GDP from one period to another. |
| d. | percentage change in real GDP from one period to another. |

19. Suppose the government eliminates all environmental regulations and, as a result, the production of goods and services increases, but there is considerably more pollution. Based on this scenario, which of the following statements is correct?

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| --- | --- |
| a. | GDP would definitely increase, despite the fact that GDP includes environmental quality. |
| b. | GDP would definitely decrease because GDP includes environmental quality. |
| c. | GDP would definitely increase because GDP excludes environmental quality. |
| d. | GDP could either increase or decrease because GDP excludes environmental quality. |

20. The basic principles of economics suggest that

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| --- | --- |
| a. | markets are seldom, if ever, a good way to organize economic activity. |
| b. | government should become involved in markets when trade between countries is involved. |
| c. | government should become involved in markets when those markets fail to produce efficient or fair outcomes. |
| d. | All of the above are correct. |

21. The idea that only the government can organize economic activity in a way that promotes economic well-being for a country as a whole

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| --- | --- |
| a. | is a basic principle regarding individual decision-making. |
| b. | amounts to a denial of one of the basic principles regarding interactions among people. |
| c. | supports the idea that the "invisible hand" should guide economic activity. |
| d. | was promoted by the economist Adam Smith in a well-known 1776 book. |

22. Which of the following statements about real and nominal interest rates is correct?

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| --- | --- |
| a. | When the nominal interest rate is rising, the real interest rate is necessarily rising; when the nominal interest rate is falling, the real interest rate is necessarily falling. |
| b. | If the nominal interest rate is 4 percent and the inflation rate is 3 percent, then the real interest rate is 7 percent. |
| c. | An increase in the real interest rate is necessarily accompanied by either an increase in the nominal interest rate, an increase in the inflation rate, or both. |
| d. | When the inflation rate is positive, the nominal interest rate is necessarily greater than the real interest rate. |

23. What would happen to the equilibrium price and quantity of lattés if the cost to produce steamed milk, which is used to make lattés, increased, and scientists discovered that lattés cause heart attacks?

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| --- | --- |
| a. | Both the equilibrium price and quantity would increase. |
| b. | Both the equilibrium price and quantity would decrease. |
| c. | The equilibrium price would decrease, and the effect on equilibrium quantity would be ambiguous. |
| d. | The equilibrium quantity would decrease, and the effect on equilibrium price would be ambiguous. |

24. Iggie took a university teaching job as an assistant professor in 1974 at a salary of $10,000. By 2003, she had been promoted to full professor, with a salary of $50,000. If the price index was 50 in 1974 and 180 in 2003, then what is Iggie's 2003 salary in 1974 dollars?

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| --- | --- |
| a. | $13,888.89 |
| b. | $40,000 |
| c. | $65,000 |
| d. | $180,000 |

25. Which of the following sets of events must cause an increase in the price of a new house?

|  |  |
| --- | --- |
| a. | higher wages for carpenters, higher wood prices, increases in consumer incomes, higher apartment rents, increases in population, and expectations of higher house prices in the future |
| b. | lower wages for carpenters, lower wood prices, increases in consumer incomes, higher apartment rents, increases in population and expectations of higher house prices in the future |
| c. | lower wages for carpenters, higher wood prices, decreases in consumer incomes, higher apartment rents, decreases in population and expectations of higher house prices in the future |
| d. | higher wages for carpenters, lower wood prices, decreases in consumer incomes, lower apartment rents, decreases in population and expectations of lower house prices in the future |

26. Which of the following items is included in GDP?

|  |  |
| --- | --- |
| a. | the sale of stocks and bonds |
| b. | the sale of used goods |
| c. | the sale of services such as those performed by a doctor |
| d. | All of the above are included in GDP. |

27. While pollution regulations yield the benefit of a cleaner environment and the improved health that comes with it, the regulations come at the cost of reducing the incomes of the regulated firms’ owners, workers, and customers. This statement illustrates the principle that

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| --- | --- |
| a. | trade can make everyone better off. |
| b. | rational people think at the margin. |
| c. | people face tradeoffs. |
| d. | people respond to incentives. |

28. In the economy of Ukzten in 2010, consumption was $4000, exports were $800, GDP was $9500, imports were $200, and investment was $1000. What were Ukzten’s government purchases in 2010?

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| --- | --- |
| a. | $3700 |
| b. | $3900 |
| c. | $5100 |
| d. | $5500 |

29. You are considering staying in college another semester so that you can complete a major in economics. In deciding whether or not to stay you should

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| --- | --- |
| a. | compare the total cost of your education to the total benefits of your education. |
| b. | compare the total cost of your education to the benefits of staying one more semester. |
| c. | compare the cost of staying one more semester to the benefits of staying one more semester. |
| d. | compare the total benefits of your education to the cost of staying one more semester. |

30. Last year country A had a nominal GDP of $600 billion, a GDP deflator of 150 and a population of 40 million. Country B had a nominal GDP of $720 billion, a GDP deflator of 120 and population of 50 million. From these numbers which country is likely to have had the higher standard of living?

|  |  |
| --- | --- |
| a. | Country A because it had the higher nominal GDP per person. |
| b. | Country B because it had the higher nominal GDP per person. |
| c. | Country A because it had the higher real GDP per person. |
| d. | Country B because it had the higher real GDP per person. |

31. The nominal interest rate for a consumer loan lasting from 2007 to 2008 is 8.5 percent and the real interest rate is 4.5 percent. If the consumer price index was 200 in 2007, what would the consumer price index value be in 2008?

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| --- | --- |
| a. | 192 |
| b. | 208 |
| c. | 209 |
| d. | 217 |

32. Most economists believe that an increase in the quantity of money results in

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| --- | --- |
| a. | an increase in the demand for goods and services. |
| b. | lower unemployment in the short run. |
| c. | higher inflation in the long run. |
| d. | All of the above are correct. |

33. A worker received $5 for a daily wage in 1930, which has the equivalent value of $63.24 today. If the CPI was 17 in 1930 what is the value of the CPI today, rounded to the nearest whole number?

|  |  |
| --- | --- |
| a. | 215 |
| b. | 134 |
| c. | 17 |
| d. | 1.3 |

34. If the prices of all goods and services produced in the economy rose while the quantity of all goods and services stayed the same, which would rise?

|  |  |
| --- | --- |
| a. | both real GDP and nominal GDP |
| b. | real GDP but not nominal GDP |
| c. | nominal GDP but not real GDP |
| d. | neither nominal GDP nor real GDP |

***Figure 1***

The graph below pertains to the supply of paper to colleges and universities.



35. **Refer to Figure 1.** All else equal, an increase in the price of the pulp used in the paper production process would cause a move from

|  |  |
| --- | --- |
| a. | x to y. |
| b. | y to x. |
| c. | SA to SB. |
| d. | SB to SA. |

36. **Refer to Figure 1.** All else equal, sellers expecting the price of paper to decrease next month when many college students leave campuses for the summer would cause a current move from

|  |  |
| --- | --- |
| a. | x to y. |
| b. | y to x. |
| c. | SA to SB. |
| d. | SB to SA. |

37. **Refer to Figure 1.** All else equal, a major paper manufacturer filing for bankruptcy and shutting down as a result of an IRS tax evasion investigation would cause a move from

|  |  |
| --- | --- |
| a. | x to y. |
| b. | y to x. |
| c. | SA to SB. |
| d. | SB to SA. |

38. **Refer to Figure 1.** All else equal, an increase in the use of laptop computers for note-taking would cause a move from

|  |  |
| --- | --- |
| a. | x to y. |
| b. | y to x. |
| c. | SA to SB. |
| d. | SB to SA. |

39. **Refer to Figure 1.** All else equal, buyers expecting paper to be more expensive in the future would cause a current move from

|  |  |
| --- | --- |
| a. | x to y. |
| b. | y to x. |
| c. | SA to SB. |
| d. | SB to SA. |

40. **Refer to Figure 1.** All else equal, the return of college students to campus in the fall would cause a move from

|  |  |
| --- | --- |
| a. | x to y. |
| b. | y to x. |
| c. | SA to SB. |
| d. | SB to SA. |