

Problem 1. Here, match some stuff.

Definitions

- (a) decreases in the general price level
- (b) decreases in the inflation rate
- (c) increases in the general price level
- (d) nominal interest rate minus expected inflation rate
- (e) the interest rate charged on a loan

Terms

- (i) inflation
- (ii) real interest rate
- (iii) deflation
- (iv) ex-ante real interest rate
- (v) disinflation
- (vi) nominal interest rate
- (vii) recession

Problem 2. Suppose that an average household in a small island country consumed only three goods. The following table shows the prices and quantities of these goods for three different years.

Year	Good 1		Good 2		Good 3	
	P	Q	P	Q	P	Q
1984	\$20.00	2	\$30.00	5	\$10.00	6
2006	\$40.00	4	\$60.00	7	\$20.00	8
2015	\$49.00	4	\$71.00	7	\$23.00	8

Assume that 1984 is the base year. What is the consumer price index (CPI) for 2006? What was the rate of CPI inflation from 1984 to 2006?

Problem 3. What is the relationship between the real interest rate, the nominal interest rate, and inflation? That is, what is it called and what is the formula?

For problems 3-5, consider the following statistics of an economy:

nominal interest rate in 2017: 6%

general price level in 2017: 100

general price level expected in 2018: 104

actual general price level in 2018: 107

Problem 4. Find the expected one-year rate of inflation in 2017.

Problem 5. Find the ex-ante real interest rate in 2017.

Problem 6. Find the ex-post real interest rate in 2017.

Problem 7. Leopnard and Brad both expect 4% inflation over the next year. Brad borrows some money from Leopnard at the interest rate of 7%. Next year, the inflation rate turns out to be only 2%. In this story

- (a) Leopnard will be better off than expected
- (b) Leopnard will be worse off than expected
- (c) Brad will be better off than expected
- (d) Both will be worse off than expected
- (e) “Leopnard” is a really funny name.

Problem 8. Schtolteheim Reinbach III inherits some cash from his aunt and deposits it in his checking account. He realized that inflation is going to erode the purchasing power of those deposits. His financial adviser tells him to buy gold coins and put them in a safe deposit box. The fee Schtolteheim pays the adviser, plus the cost of the safe deposit box, is

- (a) menu costs
- (b) shoe-leather costs
- (c) hedging costs
- (d) inflation costs
- (e) none of the above
- (f) above of the none

Problem 9. Apple Computers raises the prices of iPhones and iPads just to keep up with the general inflation. As a result, it has to modify its computer programs, issue new online catalogues, and inform the retail stores about the new prices. The costs of all these activities incurred by Apple are called

- (a) menu costs
- (b) shoe-leather costs
- (c) inflation costs
- (d) price-change costs
- (e) none of the above
- (f) all of the above