

Problem 1. Chris buys stock of Chevron for \$50. After a few weeks, he collects dividends of \$2 and sells it for \$52. Find Chris's rate of return from this investment.

Problem 2. The relationship between interest rates of bond prices is

- (a) positive
- (b) negative
- (c) neutral
- (d) getting serious but bond prices are afraid of commitment
- (e) none of the above

Problem 3. A financial asset that is traded in financial markets is specifically called

- (a) a liquid asset
- (b) a tradable asset
- (c) a security
- (d) a bond
- (e) none of the above

Problem 4. The process through which the rates of return on identical assets are equalized is called

- (a) financial market transaction
- (b) arbitrage
- (c) securities market
- (d) investment
- (e) none of the above

Problem 5. 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 6.

nominal interest rate in 2016: 6%

general price level in 2016: 100

general price level expected in 2017: 104

actual general price level in 2017: 107

Find the expected one-year rate of inflation in 2016.

Problem 7.

nominal interest rate in 2016: 6%

general price level in 2016: 100

general price level expected in 2017: 104

actual general price level in 2017: 107

Find the ex-ante real interest rate in 2016.

Problem 8.

nominal interest rate in 2016: 6%

general price level in 2016: 100

general price level expected in 2017: 104

actual general price level in 2017: 107

Find the ex-post real interest rate in 2016.

Problem 9. 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 10. Davis 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 Davis 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

Problem 11. 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