

Problem 1. Which of the following is *not* a financial asset?

- (a) an IOU
- (b) a bank deposit
- (c) a rental property
- (d) a lease agreement
- (e) none of the above

Problem 2. 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 3.

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

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

Problem 4.

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

Find the ex-ante real interest rate in 2017.

Problem 5.

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

Find the ex-post real interest rate in 2017.

Problem 6. 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 7. 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
- (f) above of the none

Problem 8. 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

Problem 9. Suppose $u_c = -2\%$. Then we can say for sure that

- (a) the economy is in an expansion.
- (b) the economy is in a recession.
- (c) the economy is producing above potential GDP.
- (d) the economy is producing below potential GDP.
- (e) none of the above.
- (f) all of the above, including none of the above

Problem 10. Explicit labor contracts are

- (a) not legally binding but instead arise from social norms.
- (b) written contracts between firms and labor unions that fix workers' nominal wages for one to three years.
- (c) usually written in crayon.
- (d) written using *extremely* foul language.
- (e) all of the above and none of the above.