Discussion 05

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Introduction to Macroeconomics

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Reading list: Chapter 25

1. Financial Market
2. Saving and Investment
3. Loanable Fund Market
4. Fisher Effect

Part 1 Multiple choice

1. A financial intermediary is a middle person between

A. labor unions and firms

B. husbands and wives

C. buyers and sellers

D. borrowers and lenders

2. Which of the following statements is true

A. A stock index is a directory used to locate information about selected stocks

B. Longer-term bonds tend to pay less interest than shorter-term bonds

C. Municipal bonds pay less interest than comparable corporate bonds

D. Mutual funds are riskier than single stock purchases because the performance of so many different firms can affect the return of a mutual fund

3. If the public consumes 100 billion dollars less and the government purchase 100 billion dollars more(other things unchanging), which of the following statements is true?

A. There is an increase in saving, and the economy should grow more quickly

B. There is a decrease in saving, and the economy should grow more slowly

C. Municipal bonds pay less interest than comparable corporate bonds

D. Mutual funds are riskier than single stock purchases because the performance of so many different firms can affect the return of a mutual fund

4. An increase in the budget deficit will

A. raise the real interest rate and decrease the quantity of loanable funds demanded for investment.

B. raise the real interest rate and increase the quantity of loanable funds demanded for investment

C. lower the real interest rate and increase the quantity of loanable funds demanded for investment

D. lower the real interest rate and decrease the quantity of loanable funds demanded for investment

5. An increase in the budget surplus

A. shifts the demand for loanable funds to the right and increases the real interest rate

B. shifts the demand for loanable funds to the left and reduces the real interest rate

C. shifts the supply of loanable funds to the left and increases the real interest rate

D. shifts the supply of loanable funds to the right and reduces the real interest rate.

Part 2

The United Arab Emirates in 2019: A Snapshot

The currency of UAE is the dirham. UAE has pegged the dirham to the US dollar (which means that the exchange rate between the UAE and the US does not fluctuate) at a rate of roughly 3.7 dirham per dollar.

The data below is nominal data from 2019, denominated in dirham. Due to rounding in the data (for ease of computation), your answers will not be perfectly precise.

UAE National Accounts, 2019

GDP: 1,546 billion

Consumption: 602 billion

Government spending: 205 billion

Government tax revenue: 193 billion

Exports: 1,430 billion

Imports: 1,060 billion

1. What was the size of private savings in the UAE in 2019?

2. What was the size of public savings in the UAE in 2019?

3. What was the size of national savings in the UAE in 2019?

4. What was the size of net capital inflows in the UAE in 2019?

5. What was the size of investment in the UAE in 2019?

6. How did the budget balance affect the interest rate in the UAE? How did net capital inflows affect the interest rate (versus if the UAE had been a closed economy)?