Exam 3/B
Answer Sheet

Name: ______________________

CU email: ____

Student ID: ______________________________________

MQuestion	Answer	SQuestion	Answer
1.	**B**	1.	**$300 million**
2.	**B**		
3.	**C**	2.	**$200 million**
4.	**C**		
5.	**B**	3.	**$300 million**
6.	**A**		
7.	**B**	4.	**$3.3 billion**
8.	**B**		
9.	**B**	5.	**$300 million**
10.	**A**		
11.	**D**	6.	**$200 million**
12.	**B**		
13.	**A**	7.	**$500 million**
14.	**C**		
15.	**A**	8.	**$0**
16.	**C**		
17.	**C**	9.	**None**
18.	**A**		
19.	**A**	10.	**Country 3**
20.	**A**		

I have neither given nor received unauthorized assistance on this exam.
Signature: ______________________

Exam 3/B
Multiple Choice Questions

Read each question and the possible answer choices carefully, and write the letter associated with the correct answer into the appropriate bracket on your answer sheet.

1. What is the nominal interest rate in the economy if the real interest rate is 5% and there is 4% deflation?
    a. -1%
    b. 1%
    c. 9%
    d. Not enough information to determine.

2. If the owners invest a total of $2 million into purchasing machinery for a construction company but $500,000 of that investment is used to replace outdated safety equipment, how much is the net investment of the firm?
    a. $500,000
    b. $1.5 million
    c. $2 million
    d. Not enough information to determine.

3. Which of the following is NOT a type of financial market?
    a. Loans market
    b. Bonds market
    c. Crops market
    d. All the above are financial markets.

4. What is the present value of a stock that pays out $10,000 in 20 years and earns an annually compounded real interest rate of 2% for the first 10 years and 4% for the second 10?
    a. $3,705
    b. $3,744
    c. $5,542
    d. None of the above.

5. At the earliest when should you cash out a bond that you bought for $1,000 to earn at least $2,500 if the interest rate of the bond starts at 2% but doubles after every 5 years? (The interest rate for years 1-5 is 2%, then for years 6-10 it is 4% etc.)
    a. At the end of year 16.
    b. At the end of year 17.
    c. At the end of year 18.
    d. Not enough information to determine.

6. You are considering a land purchase. You know that the given parcel costs $10,000 and in 3 years a developer will be willing to buy it from you for $13,310. Should you make the purchase if the real interest rate in the economy is 10%?
    - **a. Yes, make the purchase.**
    - b. No, don't make the purchase.
    - c. Either choice makes sense.
    - d. Not enough information to determine.

7. You are considering a land purchase. You know that the given parcel costs $25,000 and in 5 years a developer will be willing to buy it from you for $28,000. Should you make the purchase if the real interest rate in the economy is 3%?
    - a. Yes, make the purchase.
    - **b. No, don't make the purchase.**
    - c. Either choice makes sense.
    - d. Not enough information to determine.

8. What is the real interest rate of a bond that costs $16,000 and in 9 years it will pay $20,000?
    - a. 1.025%
    - **b. 2.5%**
    - c. 25%
    - d. Not enough information to determine.

9. In how many years will a $2,000 bond pay out $10,000 if the annually compounded real interest rate is 5%?
    - a. 5 years
    - **b. 33 years**
    - c. Never
    - d. Not enough information to determine.

10. Which of the following statements is FALSE?
    - **a. The demand for loanable funds is not subject to the Law of Demand.**
    - b. The demand for loanable funds is dependent on firms' expected future profits.
    - c. Both above statements are false.
    - d. Neither of the above statements are false.

11. Which of the following events will shift the supply of US loanable funds LEFT?
    - a. All households receive an unexpected stimulus payment.
    - b. A large gold reserve is discovered which lowers the value of gold over the world.
    - c. Both above events will shift the supply of loanable funds left.
    - **d. Neither above event will shift the supply of loanable funds left.**

12. When does the government act as a borrower on the market for loanable funds?
    a. In case of a government budget surplus.
    b. In case of a government budget deficit.
    c. When the Ricardo-Barro effect holds.
    d. When the Ricardo-Barro effect fails.

13. Which of the following would NOT be considered money?
    a. Checks
    b. Checking deposits
    c. Traveler's checks
    d. All the above would be considered money.

14. What is the Federal Reserve?
    a. A commercial bank.
    b. A money market mutual fund.
    c. A central bank.
    d. None of the above.

15. What must hold to ensure the profitability of banks?
    a. The interest on deposits must be less than the interest on loans.
    b. The interest on deposits must be equal to the interest on loans.
    c. The interest on deposits must be greater than the interest on loans.
    d. None of the above would ensure the profitability of banks.

16. If the required reserve ratio is 8%, how much new money would a $100 deposit create in the economy?
    a. $12.5
    b. $100
    c. $1250
    d. Not enough information to determine.

17. Which of the following would shift the real money supply LEFT?
    a. A decrease of the required reserves ratio.
    b. An open market purchase.
    c. An open market sale.
    d. A decrease of the federal funds rate.

18. Which of the following will shift the real money demand RIGHT?
    a. The economy goes through a rapid expansion and rGDP skyrockets.
    b. Apple Pay becomes universally accepted.
    c. Neither of the above events will shift the real money demand right.
    d. Both above events will shift the real money demand right.

19. Everything else held constant, how would an increase in the change of the velocity of money impact inflation?
    a. **It would increase the inflation rate.**
    b. It would not change the inflation rate.
    c. It would decrease the inflation rate.
    d. Not enough information to determine.

20. Which of the followings statements is TRUE about inflation?
    a. **Inflation happens when the money supply grows faster than the economy.**
    b. Inflation happens when the money supply grows slower than the economy.
    c. Inflation happens when the money supply grows at the rate of the economy.
    d. Inflation is unrelated to the growth rate of the money supply and the economy.

Short Answer Questions

Consider the following scenario and write you answers to each question into the correct space on your answer sheet.

	Country 1	Country 2	Country 3
Y	$1 billion		$2 billion
C	$500 million	$2 billion	
T		$1 billion	$500 million
G	$200 million	$800 million	
Private S			$1 billion
Public S	$100 million		$500 million
Total S		$500 million	$1.5 billion

1. What is the amount of taxes in Country 1?
2. What is the amount of private savings in Country 1?
3. What the amount of total savings in Country 1?
4. What is the amount of household income in Country 2?
5. What is the amount of private savings in Country 2?
6. What is the amount of public savings in Country 2?
7. What is the amount of household consumption in Country 3?
8. What is the amount of government expenditure in Country 3?
9. Which of the above countries exhibits a government budget deficit?
10. Which of the above countries has the highest amount of private investment?