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BPE_MAC1 Macroeconomics 1 – Spring Semester 2011

Tutorial Session 4 - 18.03.2011, 11:05-11:50 a.m.

Matching

a.	financial system	j.	national saving (saving)
b.	financial markets	k.	private saving
c.	financial intermediaries	l.	budget surplus
d.	bank	m.	budget deficit
e.	medium of exchange	n.	government debt
f.	bond	o.	investment
g.	stock	p.	demand for loanable funds
h.	investment trust	q.	supply of loanable funds
i.	closed economy	r.	crowding out

____ 1. spendable asset such as a checking deposit
____ 2. a shortfall of tax revenue relative to government spending causing public saving to be negative
____ 3. an economy with no international transactions
____ 4. financial institutions through which savers can indirectly lend to borrowers
____ 5. the group of institutions in the economy that help match borrowers and lenders
____ 6. the amount of borrowing for investment desired at each real interest rate
____ 7. the income that remains after consumption expenditures and taxes
____ 8. the accumulation of past budget deficits
____ 9. the amount of saving made available for lending at each real interest rate
____ 10. institution that collects deposits and makes loans
____ 11. institution that sells shares and uses the proceeds to buy a diversified portfolio
____ 12. financial institutions through which savers can directly lend to borrowers
____ 13. certificate of ownership of a small portion of a large firm
____ 14. an excess of tax revenue over government spending causing public saving to be positive
____ 15. the income that remains after consumption expenditures and government purchases
____ 16. a decrease in investment as a result of government borrowing
____ 17. expenditures on capital equipment and structures
____ 18. certificate of indebtedness or IOU

Multiple Choice
Identify the choice that best completes the statement or answers the question.

____ 19. Economists say that investment occurs when
a. a government buys goods from another country.
b. someone buys a government bond.
c. someone buys shares on the London or Paris or Frankfurt Stock Exchange, or any other stock exchange.
d. a firm increases its capital stock.

____ 20. Which of the following financial market securities would probably pay the highest interest rate?
  a. They would all pay about the same rate of interest.
  b. A bond issued by a large, well-established (blue chip) company.
  c. A bond issued by a start up company in a newly emerging industry.
  d. A government bond issued by the government of France.

____ 21. If a series of major technological breakthroughs occur in the economy at the same time, then the most likely outcome would be that the economy's
  a. consumption curve will shift downward.
  b. investment demand curve will shift downward.
  c. investment demand curve will shift upward.
  d. position along the existing investment curve will move upward.

____ 22. Consider a closed economy (with no foreign trade). Assuming the economy is in equilibrium, use the following information to determine the amount of funds supplied to the loanable funds market.

Consumption Spending	€350 billion
Net Taxes	€270 billion
Household Saving	€250 billion
Investment Spending	€220 billion
Government Purchases	€300 billion

  a. €300 billion
  b. €220 billion
  c. €270 billion
  d. €250 billion

____ 23. If the government budget deficit increases, the
  a. supply of loans increases and the equilibrium interest rate decreases.
  b. demand for loans increases and the equilibrium interest rate increases.
  c. demand for loans increases and the equilibrium interest rate decreases.
  d. supply of loans increases and the equilibrium interest rate increases.

____ 24. You have a bond that you can redeem for €10,000 one year from now. The interest rate is 10 per cent per year. How much is the bond worth today?
  a. €,523.81
  b. €9,000.00
  c. €9,090.91
  d. €11,000.00

____ 25. A snowplough will generate a net income of €2,000 per year for its owner. After 8 years, the plough will be worn out and have zero value. The maximum amount of money anyone would pay for the plough is
  a. less than €2,000.
  b. between €2,000 and €16,000.
  c. €2000.
  d. €16,000.

____ 26. You have a choice among three options. Option 1: receive €900 immediately. Option 2: receive €1,200 one year from now. Option 3: receive €2,000 five years from now. The interest rate is 15% per year. Rank these three options from highest present value to lowest present value.
  a. Option 2; Option 3; Option 1
  b. Option 3; Option 1; Option 2
  c. Option 3; Option 2; Option 1
  d. Option 1; Option 2; Option 3

____ 27. Which one of the following factors would *not* be considered by a fundamental analyst when predicting share prices?
a. the likelihood of new firms competing with an existing firm
b. the future demand for a firm's products
c. recent jumps in a firm's share price
d. the patents held by a firm

____ 28. If share prices follow a random walk then investors can make large profits by
a. performing fundamental analysis of shares using data contained in annual reports.
b. using computer programs that perform technical analysis using past share price trends.
c. using inside information.
d. quickly responding to rumours of mergers between companies.

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Answer Section

MATCHING

1.	ANS: E	PTS: 1
2.	ANS: M	PTS: 1
3.	ANS: I	PTS: 1
4.	ANS: C	PTS: 1
5.	ANS: A	PTS: 1
6.	ANS: P	PTS: 1
7.	ANS: K	PTS: 1
8.	ANS: N	PTS: 1
9.	ANS: Q	PTS: 1
10.	ANS: D	PTS: 1
11.	ANS: H	PTS: 1
12.	ANS: B	PTS: 1
13.	ANS: G	PTS: 1
14.	ANS: L	PTS: 1
15.	ANS: J	PTS: 1
16.	ANS: R	PTS: 1
17.	ANS: O	PTS: 1
18.	ANS: F	PTS: 1

MULTIPLE CHOICE

19. ANS: D
    a firm increases its capital stock.

    PTS: 1
20. ANS: C
    A bond issued by a start up company in a newly emerging industry.

    PTS: 1
21. ANS: C
    investment demand curve will shift upward.

    PTS: 1
22. ANS: D
    €250 billion

    PTS: 1
23. ANS: B
    demand for loans increases and the equilibrium interest rate increases.

    PTS: 1

24. ANS: C
€9,090.91

PTS: 1

25. ANS: B
between €2,000 and €16,000.

PTS: 1

26. ANS: A
Option 2; Option 3; Option 1

PTS: 1

27. ANS: C
recent jumps in a firm's stock prices

PTS: 1

28. ANS: C
using inside information.

PTS: 1