

CHAPTER 13

Rent, Interest, and Profit

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1. Economic or pure rent is:

- A) a payment made for the use of housing, factory buildings, or capital goods.
- B) a payment for resources used in the production of "free goods."
- C) a payment for the use of those resources whose supply is perfectly elastic.
- D) the price paid for the use of land and other non-reproducible resources.

Ans: D Level: Easy Main Topic: 13.1 Economic rent Page: 311-312
Subtopic: Perfectly inelastic supply Type: Definition

2. Economic rent is:

- A) nonexistent in a static, perfectly competitive economy.
- B) the price paid for a resource which has a perfectly inelastic supply.
- C) the price paid for a resource which has a perfectly elastic supply.
- D) equal to the pure rate of interest if all markets are perfectly competitive.

Ans: B Level: Easy Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Definition

3. Which of the following statements is correct?

- A) Economic profits can properly be regarded as the salaries received by the hired managers of corporations.
- B) Economic rent is a price paid for productive resources whose supply is perfectly inelastic.
- C) Economic profits would be nonexistent in a dynamic, perfectly competitive economy.
- D) Economic or pure profit is the minimum return which entrepreneurs must receive to continue in a particular line of production.

Ans: B Level: Easy Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Definition

4. Economic rent refers to the price paid for land and other natural resources which:

- A) are fixed in total supply.
- B) vary directly with their market prices.
- C) vary inversely with their market prices.
- D) are available in nearly unlimited quantities.

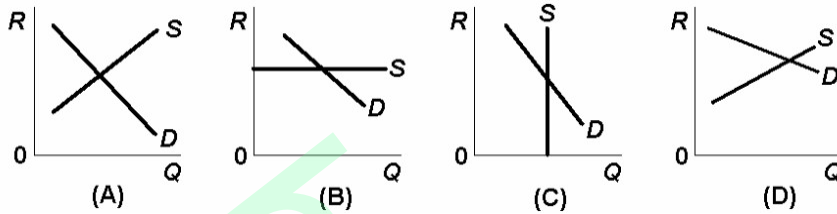
Ans: A Level: Easy Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Definition

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5. If a factor of production has price elasticity of supply equal to zero, then payments to that factor constitute:
- A) wages.
 - B) economic rent.
 - C) normal profits.
 - D) interest payments.

Ans: B Level: Easy Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Definition

6. The total amount paid to a factor of production is economic rent in the diagram below:



- A) A.
- B) B.
- C) C.
- D) D.

Ans: C Level: Moderate Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Graphic

7. The supply of land is:
- A) almost perfectly inelastic.
 - B) negatively sloped.
 - C) relatively elastic.
 - D) perfectly elastic.

Ans: A Level: Easy Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Application

8. Landowners will not receive any rent so long as:
- A) there is any tax on land.
 - B) the supply and demand curves for land intersect.
 - C) the supply curve of land is perfectly inelastic.
 - D) the supply curve lies entirely to the right of the demand curve.

Ans: D Level: Difficult Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Graphic

Chapter 13 Rent, Interest, and Profit

9. Which of the following is correct?

- A) Although land has no production cost from society's viewpoint, rental payments are costs to individual producers.
- B) Land rent is not a cost to either society or to individual producers.
- C) Although land rent is a cost from society's viewpoint, it is not a cost to individual producers.
- D) Land rent is a cost to both society and individual producers.

Ans: A Level: Easy Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Application

10. The total supply of land is:

- A) upward sloping.
- B) perfectly elastic.
- C) perfectly inelastic.
- D) greater in the short run than in the long run.

Ans: C Level: Easy Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Application

11. The total supply of land and other natural resources is:

- A) dependent upon the price of produce grown on the land.
- B) greater in the short run.
- C) perfectly inelastic.
- D) perfectly elastic.

Ans: C Level: Easy Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Application

Use the following to answer questions 12-15:

Use the following demand schedule and possible supply schedules, A-D, to answer the next question(s).

Demand	Price	Resource supply			
		A	B	C	D
100	\$1	20	40	60	60
80	2	40	60	60	80
60	3	60	80	60	90
40	4	80	100	60	100

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12. Refer to the schedules above. Payments for an economic resource would be considered economic rent with resource supply schedule:

A) A.
B) B.
C) C.
D) D.

Ans: C Level: Moderate Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Application

13. Refer to the schedules above. Which supply schedule is perfectly price inelastic?

A) A
B) B
C) C
D) D

Ans: C Level: Moderate Main Topic: 13.1 Economic rent Page: 312
Subtopic: Perfectly inelastic supply Type: Application

14. Refer to the schedules above. The price elasticity of supply is zero. Demand increases from the original schedule by 20 units at each price. The equilibrium economic rent in this case would be:

A) \$1.
B) \$2.
C) \$3.
D) \$4.

Ans: D Level: Difficult Main Topic: 13.1 Economic rent Page: 312-313
Subtopic: Equilibrium rent and changes in demand Type: Calculation

15. Refer to the schedules above. If demand for an economic resource decreases by 50 units at each price when the supply schedule is perfectly inelastic, then the:

A) equilibrium economic rent would be \$1.
B) equilibrium economic rent would be \$2.
C) equilibrium economic rent would be \$3.
D) resource would be considered to be free.

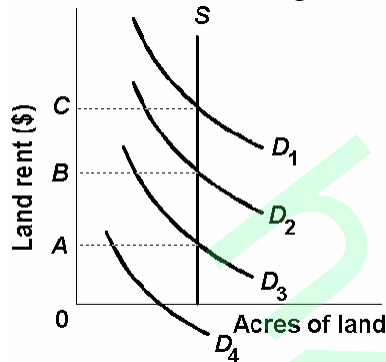
Ans: D Level: Difficult Main Topic: 13.1 Economic rent Page: 312-313
Subtopic: Equilibrium rent and changes in demand Type: Calculation

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16. The aggregate economic rent received by a productive resource will decrease, *ceteris paribus*, whenever the:
- A) demand for the resource increases.
 - B) price of the resource decreases.
 - C) demand for the resource decreases.
 - D) supply curve shifts to the right.

Ans: C Level: Easy Main Topic: 13.1 Economic rent Page: 312-313
Subtopic: Equilibrium rent and changes in demand Type: Application

17. Refer to the below diagram. Land:



- A) will cease to be used in production if demand falls below D_4 .
- B) would be a free resource if demand is D_4 or less.
- C) would be an economic (scarce) resource in the case of all four demand curves.
- D) would be a free resource in the case of all four demand curves.

Ans: B Level: Moderate Main Topic: 13.1 Economic rent Page: 312-313
Subtopic: Equilibrium rent and changes in demand Type: Graphic

18. Use the following demand schedule, and possible supply schedules, A-D, to answer this question. There would be no incentive function performed by price with resource supply schedule:

Demand	Price	Resource supply			
		A	B	C	D
100	\$1	20	40	60	60
80	2	40	60	60	80
60	3	60	80	60	90
40	4	80	100	60	100

- A) A.
- B) B.
- C) C.
- D) D.

Ans: C Level: Easy Main Topic: 13.1 Economic rent Page: 313
Subtopic: Land rent: a surplus payment Type: Application

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19. To say that land rent performs no incentive function means that:
- A) higher rental payments will not bring forth a larger quantity of land.
 - B) rent is not a cost to specific firms and industries but it is a cost from the standpoint of the economy as a whole.
 - C) rent does not allocate land in terms of productive efficiency.
 - D) rent tends to allocate land into the most productive uses.

Ans: A Level: Easy Main Topic: 13.1 Economic rent Page: 313
Subtopic: Land rent: a surplus payment Type: Application

20. The incentive function of prices:
- A) indicates that price increases bring forth more of a resource.
 - B) is the notion that perfectly competitive markets will always clear.
 - C) applies to all resources.
 - D) only applies to land.

Ans: A Level: Moderate Main Topic: 13.1 Economic rent Page: 313
Subtopic: Land rent: a surplus payment Type: Application

21. The demand for farmland will increase if:
- A) the demand for food decreases.
 - B) technological advances make land more productive.
 - C) the price of farm labour increases and the output effect exceeds the substitution effect.
 - D) the supply of farmland increases.

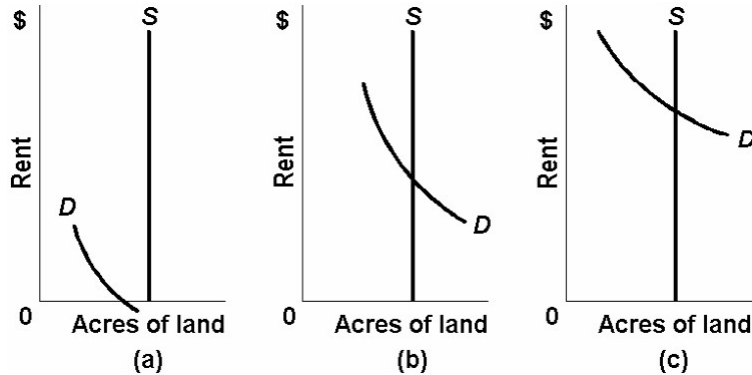
Ans: B Level: Moderate Main Topic: 13.1 Economic rent Page: 313
Subtopic: Productivity differences and rent differences Type: Application

22. The rent paid for the pasture land used to graze cattle would increase if:
- A) the productivity of the land increased.
 - B) people decided to consume more beef.
 - C) oil deposits were discovered on the land.
 - D) any of the above occurred.

Ans: D Level: Easy Main Topic: 13.1 Economic rent Page: 313
Subtopic: Productivity differences and rent differences Type: Application

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Use the following to answer questions 23-24:



23. Refer to the diagrams above. Assume that only wheat can be grown on the three grades of land shown in Figures a, b, and c. Also assume that identical amounts of labour, capital, and other needed inputs are used in farming each grade of land. On the basis of these three figures we:

- A) can say that the land in Figure a is most productive.
- B) can say that the land in Figure b is most productive.
- C) can say that the land in Figure c is most productive.
- D) cannot compare the productivity of the three grades of land.

Ans: C Level: Moderate Main Topic: 13.1 Economic rent Page: 313
Subtopic: Productivity differences and rent differences Type: Graphic

24. Refer to the diagrams above. Assume that only wheat can be grown on the three grades of land shown in Figures a, b, and c. Also assume that identical amounts of labour, capital, and other needed inputs are used in farming each grade of land. On the basis of these three figures we can say that:

- A) the land shown in both Figures a and b is a "free good."
- B) the land shown in Figure a only is a "free good."
- C) the land shown in all three figures is a "free good."
- D) land is not a "free good" in any of the three figures.

Ans: B Level: Moderate Main Topic: 13.1 Economic rent Page: 313
Subtopic: Productivity differences and rent differences Type: Graphic

25. If the payment to an input is a pure economic rent, then reducing that payment will:

- A) decrease the demand for the input.
- B) increase the quantity supplied of the input.
- C) decrease the quantity supplied of the input.
- D) not influence the availability of the input.

Ans: D Level: Easy Main Topic: 13.1 Economic rent Page: 313-314
Subtopic: Alternative uses of land Type: Application

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26. Suppose that interest payments are \$140 per year on a \$1000 loan and \$1188 per year on a \$8485 loan. The interest rates on the two loans are:
- A) 14 percent and 20 percent, respectively.
 - B) 14 percent on both loans.
 - C) 18.8 percent on both loans.
 - D) 1.4 percent and 11.8 percent, respectively.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 314 Subtopic: Loanable funds theory of interest Type: Calculation

27. If the price paid for the use of a fixed amount of money falls:
- A) economic rent has fallen.
 - B) economic rent has risen.
 - C) the interest rate has risen.
 - D) the interest rate has fallen.

Ans: D Level: Easy Main Topic: 13.2 Interest: the price of money Page: 314
Subtopic: Loanable funds theory of interest Type: Application

28. If you pay \$2,640 annually on a \$22,000 loan A and pay \$1,800 on a \$12,000 loan B, then the interest rate is:
- A) 12 percent on loan A and 18 percent on loan B.
 - B) 10 percent on loan A and 15 percent on loan B.
 - C) 12 percent on loan A and 15 percent on loan B.
 - D) 15 percent on loan A and 12 percent on loan B.

Ans: C Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 314 Subtopic: Loanable funds theory of interest Type: Calculation

29. Which of the following is correct?
- A) Money is a resource, but real capital is not.
 - B) Real capital is a resource, but money is not.
 - C) Neither money nor real capital is a resource.
 - D) Both money and real capital are resources.

Ans: B Level: Easy Main Topic: 13.2 Interest: the price of money Page: 314
Subtopic: Loanable funds theory of interest Type: Application

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30. Which of the following is not a source of loanable funds?

- A) the saving of households
- B) business saving
- C) chartered bank lending
- D) government budget deficits

Ans: D Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 314 Subtopic: Loanable funds theory of interest Type: Application

31. The supply curve of loanable funds is upward sloping because:

- A) businesses find more investments to be profitable at low interest rates than at high interest rates.
- B) households are willing to save more at high interest rates than they are at low interest rates.
- C) government budget deficits vary inversely with the equilibrium interest rate.
- D) banks lend more at low interest rates than they do at high interest rates.

Ans: B Level: Easy Main Topic: 13.2 Interest: the price of money Page: 315
Subtopic: Loanable funds theory of interest Type: Application

32. The supply of loanable funds is an upward sloping curve because the:

- A) higher the interest rate, the more households consume, and the more households save.
- B) higher the interest rate, the less households consume, and the more households save.
- C) lower the interest rate, the more households consume, and the more households save.
- D) lower the interest rate, the less households consume, and the more households save.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 315 Subtopic: Loanable funds theory of interest Type: Application

33. The fact that people prefer present consumption to future consumption results in:

- A) a downward sloping demand for loanable funds curve.
- B) an upward sloping supply of loanable funds curve.
- C) a downward sloping supply of loanable funds curve.
- D) an upward sloping demand for loanable funds curve.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 315 Subtopic: Loanable funds theory of interest Type: Application

Chapter 13 Rent, Interest, and Profit

34. The equilibrium interest rate equates:
- A) nominal and real interest rates.
 - B) the quantities demanded and supplied of loanable funds.
 - C) consumption and saving.
 - D) taxes and government spending.

Ans: B Level: Easy Main Topic: 13.2 Interest: The price of money
Page: 315-316 Subtopic: Loanable funds theory of interest Type: Definition

35. Refer to the table below. The equilibrium interest rate and quantity of loanable funds demanded and supplied in this market will be:

Figures are in billions of dollars.

Interest <u>rate</u>	Quantity of loanable funds <u>demand</u>	Quantity of loanable funds <u>supplied</u>
6%	\$300	\$60
8	260	100
10	220	140
12	180	180
14	140	220
16	100	260

- A) 8 percent and \$140 billion.
- B) 10 percent and \$140 billion.
- C) 12 percent and \$180 billion.
- D) 14 percent and \$240 billion.

Ans: C Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 315-316 Subtopic: Loanable funds theory of interest Type: Application

Use the following to answer questions 36-38:

The schedule shows interest rates, the associated quantity demanded of loanable funds, and the quantity supplied of loanable funds in billions of dollars at those interest rates.

Interest rate	Quantity demanded	Quantity supplied
12	100	520
10	200	480
8	300	440
6	400	400
4	500	360
2	600	320

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36. Refer to the table and information provided. What is the equilibrium interest rate?

- A) 4 percent
- B) 6 percent
- C) 8 percent
- D) 10 percent

Ans: B Level: Easy Main Topic: 13.2 Interest: the price of money

Page: 315-316 Subtopic: Loanable funds theory of interest Type: Application

37. Refer to the table and information provided. At an interest rate of 8 percent, there will be:

- A) an excess supply of loanable funds of 440 billion.
- B) an excess supply of loanable funds of 140 billion.
- C) an excess demand for loanable funds of 140 billion.
- D) an excess demand for loanable funds of 300 billion.

Ans: B Level: Easy Main Topic: 13.2 Interest: the price of money

Page: 315-316 Subtopic: Loanable funds theory of interest Type: Application

38. Refer to the table and information provided. At an interest rate of 4 percent, there will be:

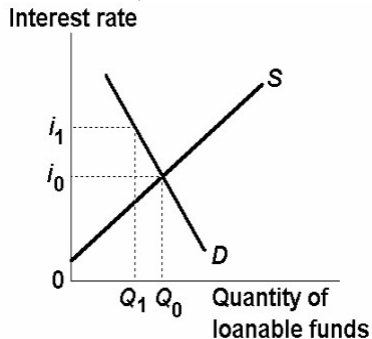
- A) an excess supply of loanable funds of 140 billion.
- B) an excess supply of loanable funds of 360 billion.
- C) an excess demand for loanable funds of 140 billion.
- D) an excess demand for loanable funds of 500 billion.

Ans: C Level: Easy Main Topic: 13.2 Interest: the price of money

Page: 315-316 Subtopic: Loanable funds theory of interest Type: Application

Chapter 13 Rent, Interest, and Profit

39. Refer to the market below for loanable funds, where the price of those funds is the interest rate, as shown in the below graph. A decline in the interest rate is likely to:



- A) lower capital investment.
- B) increase the quantity of loanable funds demanded.
- C) come about when there is a shortage of loanable funds.
- D) result from an increase in the marginal product of capital.

Ans: B Level: Difficult Main Topic: 13.2 Interest: the price of money
Page: 315-316 Subtopic: Loanable funds theory of interest Type: Graphic

40. Which of the following is not a component of the demand for loanable funds?

- A) household purchases of housing and durable consumer goods
- B) business purchases of capital goods
- C) government financing of budget deficits
- D) household saving

Ans: D Level: Easy Main Topic: 13.2 Interest: the price of money Page: 316
Subtopic: Loanable funds theory of interest Type: Application

41. The demand for loanable funds is downward sloping:

- A) because businesses find more investments to be profitable at low interest rates than at high interest rates.
- B) because households are willing to save more at high interest rates than at low interest rates.
- C) only when the nominal interest rate exceeds the real interest rate.
- D) because the amount of profitable business investment varies directly with the interest rate.

Ans: A Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316 Subtopic: Loanable funds theory of interest Type: Application

Chapter 13 Rent, Interest, and Profit

42. Suppose a firm is considering the purchase of a machine which when used will increase its total revenues by \$10,000 for the year. The machine costs \$8,000 and has a useful life of one year. The interest rate is 20 percent. This investment should:
- A) be undertaken because the rate of return is 2 percent greater than the interest rate.
 - B) be undertaken because the rate of return is 5 percent greater than the interest rate.
 - C) be undertaken because the rate of return is 7 percent greater than the interest rate.
 - D) not be undertaken because the rate of return is 7 percent less than the interest rate.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316 Subtopic: Loanable funds theory of interest Type: Calculation

43. If a firm buys a new computer system that costs \$12,000 a year it can reduce the firm's cost by \$900 a year. The firm should borrow funds and purchase this machine if it can negotiate an annual interest rate on the loan between:
- A) 6 and 7 percent.
 - B) 8 and 9 percent.
 - C) 10 and 12 percent.
 - D) 13 and 14 percent.

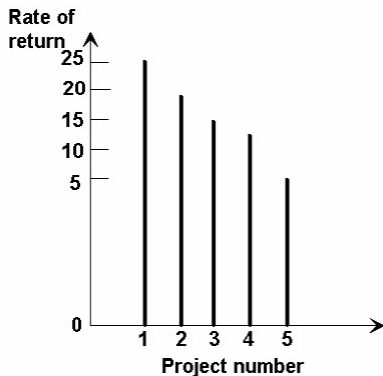
Ans: A Level: Difficult Main Topic: 13.2 Interest: the price of money
Page: 316 Subtopic: Loanable funds theory of interest Type: Calculation

44. A firm wants to borrow funds to purchase a new piece of equipment that costs \$20,000 and has a useful life of one year. The investment is expected to produce an additional \$1,500 in total revenue. The firm will most likely make the investment if the interest rate is:
- A) 6 percent.
 - B) 8 percent.
 - C) 10 percent.
 - D) 12 percent.

Ans: A Level: Difficult Main Topic: 13.2 Interest: the price of money
Page: 316 Subtopic: Loanable funds theory of interest Type: Calculation

Chapter 13 Rent, Interest, and Profit

45. The graph below shows the projected rate of return on five investment projects which might be undertaken by a small firm. If each project requires an investment of \$1,000, and the interest rate increases from 10 percent to 20 percent, the quantity demanded of loanable funds for this firm:



- A) increases by \$1,000.
- B) increases by \$3,000.
- C) decreases by \$3,000.
- D) decreases by \$4,000.

Ans: C Level: Difficult Main Topic: 13.2 Interest: the price of money
Page: 316 Subtopic: Loanable funds theory of interest Type: Graphic

46. Other things equal, an increase in the productivity of capital goods will:
- A) increase the demand for loanable funds and decrease the equilibrium interest rate.
 - B) increase the demand for loanable funds and increase the equilibrium interest rate.
 - C) increase the supply of loanable funds and decrease the equilibrium interest rate.
 - D) increase the supply of loanable funds and increase the equilibrium interest rate.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

47. Which one of the following will increase the supply of loanable funds? An increase in the:
- A) rates of return on potential investments.
 - B) productivity of business firms.
 - C) demand for business products.
 - D) savings of households.

Ans: D Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

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48. Which factor will increase the demand for loanable funds?

- A) a change in the tax law to exempt savings from taxation
- B) expansion of social insurance to cover more fully the cost of retirement
- C) a general business recession that produces high rates of unemployment
- D) a technological advance that increases returns on investments

Ans: D Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

49. An increase in the interest rate will:

- A) increase the demand for loanable funds.
- B) increase the supply of loanable funds.
- C) decrease the supply of loanable funds.
- D) increase the quantity of loanable funds supplied.

Ans: D Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

50. A decrease in the supply of loanable funds and an increase in the demand for loanable funds will:

- A) increase the interest rate and the quantity of funds loaned.
- B) decrease the interest rate and the quantity of funds loaned.
- C) increase the interest rate, but the quantity of funds loaned may either increase or decrease.
- D) decrease the interest rate, but the quantity of funds loaned may either increase or decrease.

Ans: C Level: Difficult Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

51. If Parliament were to pass a law exempting interest on saving from taxation, the:

- A) supply of loanable funds would decrease and the equilibrium interest rate rise.
- B) supply of loanable funds would increase and the equilibrium interest rate fall.
- C) demand for loanable funds would increase and the equilibrium interest rate rise.
- D) equilibrium interest rate would be unaffected.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

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52. A national program of health insurance is likely to:
- A) decrease the demand for loanable funds and increase the equilibrium interest rate.
 - B) increase the supply of loanable funds and decrease the equilibrium interest rate.
 - C) decrease the supply of loanable funds and increase the equilibrium interest rate.
 - D) increase the real interest rate but not the nominal interest rate.

Ans: C Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

53. In the market for loanable funds:
- A) an increase in bank lending will increase the interest rate.
 - B) a decrease in saving will reduce the interest rate.
 - C) an increase in borrowing for investment will increase the interest rate.
 - D) a decrease in government borrowing will increase the interest rate.

Ans: C Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

54. The interest rate for loanable funds will decrease if the:
- A) demand increases.
 - B) demand decreases.
 - C) supply decreases.
 - D) quantity demanded exceeds quantity supplied.

Ans: B Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

55. The interest rate for loanable funds will increase if the:
- A) demand decreases.
 - B) supply increases.
 - C) supply decreases.
 - D) quantity supplied exceeds the quantity demanded

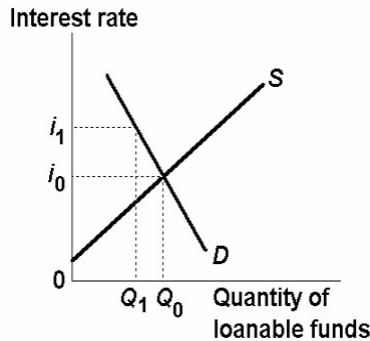
Ans: C Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

56. An increase in the demand for loanable funds may be caused by a(n):
- A) increase in the availability of loanable funds.
 - B) increase in consumers' willingness to save.
 - C) increase in business borrowing.
 - D) decrease in the interest rate.

Ans: C Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

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Use the following to answer questions 57-58:



57. Refer to the market for loanable funds, where the price of those funds is the interest rate, as shown in the above graph. Suppose investors who borrow money in the loanable funds market become quite nervous and pessimistic about the economy in general, and expected returns on investments in particular. We would expect to see a(n):
- A) lower equilibrium interest rate.
 - B) rightward shift of the supply curve.
 - C) rightward shift of the demand curve.
 - D) increase in the equilibrium quantity of loanable funds.

Ans: A Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Graphic

58. Refer to the market for loanable funds, where the price of those funds is the interest rate, as shown in the above graph. Suppose the market for loanable funds is originally in equilibrium at interest rate i_0 and quantity Q_0 . In the next period, the equilibrium interest rate increases to i_1 and quantity decreases to Q_1 . Which of the following could be the cause of this shift?
- A) Households decide to save less.
 - B) Households decide to save more.
 - C) Investors become less optimistic.
 - D) Investors become more optimistic.

Ans: A Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Graphic

Chapter 13 Rent, Interest, and Profit

59. Refer to the below table and information. If technology improved and the demand for loanable funds increases by \$140 billion at each interest rate, the new equilibrium interest rate will be:

The schedule shows interest rates, the associated quantity demanded of loanable funds, and the quantity supplied of loanable funds in billions of dollars at those interest rates.

Interest rate	Quantity demanded	Quantity supplied
12	100	520
10	200	480
8	300	440
6	400	400
4	500	360
2	600	320

- A) 2 percent.
- B) 4 percent.
- C) 8 percent.
- D) 10 percent.

Ans: C Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316-317 Subtopic: Extending the model Type: Application

60. The "time-value of money" refers to the fact that:

- A) a given amount of money becomes more valuable over time.
- B) a given amount of money is more valuable the sooner it is obtained.
- C) people expect monetary compensation for their labour time.
- D) a given sum of money today is equal to a smaller sum of money in the future.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Application

61. Which of the following statements best illustrates the time-value of money concept?

- A) Bob is willing to forgo receiving \$100 today in order to receive \$110 next month.
- B) Tom is indifferent between receiving \$50 now and \$50 six months from now.
- C) Terry works for an hourly wage instead of a fixed salary.
- D) Jeff would prefer to receive \$200 at the end of the year instead of \$220 now.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Application

Chapter 13 Rent, Interest, and Profit

62. On January 1, 2008, Alex deposited \$5000 into a savings account that pays interest of 5 percent, compounded annually. If he makes no further deposits or withdrawals, how much will Alex have in his account on December 31, 2010 (3 years later)?
- A. \$5,750
 - B. \$5,788
 - C. \$5,813
 - D. \$5,825

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

Refer to the following table to answer questions 63-67:

<u>Year</u>	<u>Beginning Period Value</u>	<u>Total Investment</u>	<u>End Period Value</u>
1	\$2,000	A	\$2,200
2	\$2,200	\$420	B
3	C	D	E

63. Refer to the above table representing Kara's bank account. Assuming that \$2000 was deposited into her account at the beginning of year 1, the value for cell A is:
- A. \$10.
 - B. \$20.
 - C. \$100.
 - D. \$200.

Ans: D Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

64. Referring to the table representing Kara's bank account. Assume that \$2,000 was deposited into her account at the beginning of year 1, and no further deposits or withdrawals were made, the value for cell B:
- A) cannot be determined.
 - B) is \$2,220.
 - C) is \$2,240.
 - D) is \$2,620.

Ans: C Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

Chapter 13 Rent, Interest, and Profit

65. Referring to the table representing Kara's bank account. Assume that \$2,000 was deposited into her account at the beginning of year 1, and no further deposits or withdrawals were made, the value for cell D:

A) is \$662.
B) is \$2,220.
C) is \$2,240.
D) is \$2,620.

Ans: A Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

66. Referring to the table representing Kara's bank account. Assume that \$2,000 was deposited into her account at the beginning of year 1, and no further deposits or withdrawals were made, the value for cell E:

A) cannot be determined.
B) is \$2,662.
C) is \$2,600.
D) is \$2,200.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

67. Referring to the table representing Kara's bank account. Assume that \$2,000 was deposited into her account at the beginning of year 1, and no further deposits or withdrawals were made, the interest rate Kara is receiving on her account is:

A) 5 percent.
B) 20 percent.
C) 10 percent.
D) cannot be determined.

Ans: C Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

68. If Kelly deposits \$10,000 into an account that pays 8 percent interest, compounded annually, and she makes no further deposits or withdrawals, how much will Kelly have in her account at the end of 5 years?

A) \$14,000.
B) \$14,482.
C) \$15,000.
D) \$14,693.

Ans: D Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

Chapter 13 Rent, Interest, and Profit

69. Present value refers to the:

- A) value today of some amount of money to be received in the future.
- B) current value of money held in a bank account.
- C) amount to which some current amount of money will grow over time.
- D) interest rate specified when a loan contract is signed.

Ans: A Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Definition

70. The value today of a sum of money to be received in the future is referred to as:

- A) the future value of that sum of money.
- B) the present value of that sum of money.
- C) compound interest.
- D) the time-value of money.

Ans: B Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Definition

71. The "future value" of a sum of money refers to:

- A) the estimated value of that money invested in a stock portfolio at some future date.
- B) the purchasing power of a given amount of money adjusted for price changes.
- C) today's value of a sum of money to be received in the future.
- D) the amount to which some current sum of money will grow over time.

Ans: D Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Definition

Refer to the following table to answer questions 72-76:

<u>Year</u>	<u>Beginning Period Value</u>	<u>Total Investment</u>	<u>End Period Value</u>
1	\$1,000	\$60	\$1,060
2	\$1,060	A	B
3	C	D	\$1,191

Chapter 13 Rent, Interest, and Profit

72. Refer to the above table representing Darcy's bank account. Assuming that \$1000 was deposited into her account at the beginning of year 1, and no further deposits or withdrawals were made, how much interest would Darcy receive in Year 2 only?

A) \$60
B) \$63.6
C) \$120
D) \$123.6

Ans: B Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

73. Refer to the above table representing Darcy's bank account. Assuming that \$1000 was deposited into her account at the beginning of year 1, and no further deposits or withdrawals were made, what interest rate is being paid on Darcy's account?

A) 6 percent.
B) 6.4 percent.
C) 19.1 percent
D) 60 percent.

Ans: A Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

74. Refer to the above table representing Darcy's bank account. Assuming that \$1000 was deposited into her account at the beginning of year 1, and no further deposits or withdrawals were made, the \$1191 value at the end of year 3 represents the:

A) discounted value of the \$1000 deposit made at the beginning of year 1.
B) present value of the \$1000 deposit made at the beginning of year 1.
C) future value of the \$1000 deposit made at the beginning of year 1.
D) present value of the interest earned over the three-year period.

Ans: C Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

Chapter 13 Rent, Interest, and Profit

75. Refer to the above table representing Darcy's bank account. Assuming that \$1000 was deposited into her account at the beginning of year 1, and no further deposits or withdrawals were made, what is the value for cell D?

- A) \$67.4.
- B) \$180.
- C) \$191.
- D) it cannot be determined.

Ans: C Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

76. Refer to the above table representing Darcy's bank account. Assuming that \$1000 was deposited into her account at the beginning of year 1, and no further deposits or withdrawals were made, which cell(s) represents the future value of the initial deposit if the money remains in the account for two years?

- A) cell B only.
- B) cell A only.
- C) cells A and D.
- D) Cells B and C.

Ans: D Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 317-318 Subtopic: Time value of money Type: Calculation

77. Other things equal, interest rates are:

- A) higher on large loans than on small loans.
- B) higher on loans with tax-exempt interest payments.
- C) lower on less risky loans than on riskier loans.
- D) lower on short-term loans than on long-term loans.

Ans: C Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 318-319 Subtopic: Range of interest rates Type: Application

78. Which of the following generalizations is false? Other things equal:

- A) interest rates are higher if lenders are imperfectly, rather than purely, perfectly competitive.
- B) the interest rate is less on small loans than on larger loans.
- C) long-term loans normally command higher interest rates than short-term loans.
- D) the greater the risk on a loan, the greater the interest rate.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 318-319 Subtopic: Range of interest rates Type: Application

Chapter 13 Rent, Interest, and Profit

79. The "pure" rate of interest is approximated by the:
- A) rate which savings and loan associations charge on mortgage loans.
 - B) rate charged consumers by credit card companies.
 - C) rate paid on long-term government bonds.
 - D) announced rate at which commercial banks make business loans.

Ans: C Level: Easy Main Topic: 13.2 Interest: the price of money Page: 319
Subtopic: Pure rate of interest Type: Definition

80. The "pure rate of interest" refers to the:
- A) nominal rate of interest adjusted for inflation.
 - B) nominal rate of interest.
 - C) interest rate paid on virtually riskless long-term bonds.
 - D) rate which large banks charge their corporate borrowers.

Ans: C Level: Easy Main Topic: 13.2 Interest: the price of money Page: 319
Subtopic: Pure rate of interest Type: Definition

81. A lower equilibrium interest rate:
- A) increases saving, reduces total spending, and increases total output.
 - B) decreases saving, increases total spending, and decreases total output.
 - C) increases investment, increases total spending, and increases total output.
 - D) decreases investment, decreases total spending, and increases total output.

Ans: C Level: Easy Main Topic: 13.2 Interest: the price of money Page: 319
Subtopic: Role of the interest rate Type: Application

82. The equilibrium interest rate:
- A) affects both the size of total output and its composition.
 - B) falls when the demand for loanable funds increases.
 - C) determines the composition of R&D spending but not its total amount.
 - D) increases when the expected rate of return on R&D spending falls.

Ans: A Level: Easy Main Topic: 13.2 Interest: the price of money Page: 320
Subtopic: Role of the interest rate Type: Application

Chapter 13 Rent, Interest, and Profit

83. Changes in the equilibrium interest rate will:

- A) affect both the size of the domestic output and the allocation of capital goods among industries.
- B) affect the size of the domestic output, but not the allocation of capital goods among industries.
- C) affect the allocation of capital goods among industries, but not the size of the domestic output.
- D) have no perceptible effect on either the size of the domestic output or the allocation of capital goods among industries.

Ans: A Level: Moderate Main Topic: 13.2 Interest: the price of money

Page: 320 Subtopic: Role of the interest rate Type: Application

84. The equilibrium interest rate:

- A) allocates the available supply of loanable funds to investment projects which have high enough rates of return to justify the borrowing.
- B) rises when the supply of loanable funds increases.
- C) is the price paid for the use of any resource.
- D) affects the size of total output but not the composition of that output.

Ans: A Level: Moderate Main Topic: 13.2 Interest: the price of money

Page: 320 Subtopic: Role of the interest rate Type: Application

85. Other things equal, an increase in the equilibrium interest rate will:

- A) increase R&D spending.
- B) rise when the supply of loanable funds increases.
- C) decrease purchases of capital goods and reduce R&D spending.
- D) increase bank lending.

Ans: C Level: Moderate Main Topic: 13.2 Interest: the price of money

Page: 320 Subtopic: Role of the interest rate Type: Application

86. Which would cause an increase in interest rates in credit markets?

- A) a decrease in business demand for credit
- B) an increase in the supply of consumer saving
- C) an increase in the supply of business saving
- D) an increase in consumer demand for credit

Ans: D Level: Moderate Main Topic: 13.2 Interest: the price of money

Page: 320 Subtopic: Role of the interest rate Type: Application

Chapter 13 Rent, Interest, and Profit

87. Suppose many businesses want to increase their stock of capital goods and decide to borrow funds to do it. Which would be the likely result of this event?
- A) Interest rates would increase.
 - B) Interest rates would decrease.
 - C) The equilibrium quantity of loanable funds would decrease.
 - D) The equilibrium quantity of loanable funds would remain unchanged.

Ans: A Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 320 Subtopic: Role of the interest rate Type: Application

88. The real rate of interest is:
- A) the interest rate charged on long-term government bonds.
 - B) the interest rate associated with a riskless loan.
 - C) the interest rate which large commercial banks charge their best customers.
 - D) the interest rate after adjustment has been made for inflation.

Ans: D Level: Easy Main Topic: 13.2 Interest: the price of money Page: 320
Subtopic: Role of the interest rate Type: Definition

89. The real interest rate is:
- A) the nominal rate plus the rate of inflation.
 - B) not used in making investment decisions.
 - C) is the nominal rate of interest less the rate of return on an investment.
 - D) none of the above.

Ans: D Level: Easy Main Topic: 13.2 Interest: the price of money Page: 320
Subtopic: Role of the interest rate Type: Definition

90. The real interest rate can be estimated by:
- A) subtracting the "pure" interest rate from the nominal interest rate.
 - B) dividing the nominal interest rate by the consumer price index.
 - C) subtracting the nominal interest rate from the rate of inflation.
 - D) subtracting the rate of inflation from the nominal interest rate.

Ans: D Level: Easy Main Topic: 13.2 Interest: the price of money Page: 320
Subtopic: Role of the interest rate Type: Application

Chapter 13 Rent, Interest, and Profit

91. In year 1 the price level is constant and the nominal rate of interest is 6 percent. But in year 2 the inflation rate is 3 percent. If the real rate of interest is to remain at the same level in year 2 as it was in year 1, then in year 2 the nominal interest rate must:
- A) rise by 9 percentage points.
 - B) rise by 3 percentage points.
 - C) fall by 3 percentage points.
 - D) rise by 6 percentage points.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 320 Subtopic: Role of the interest rate Type: Calculation

92. It will be most likely that an industry would borrow funds to expand capital facilities when the:
- A) pure rate of interest is greater than the real rate of interest.
 - B) expected rate of return is greater than the interest rate.
 - C) demand for money is greater than the supply of money.
 - D) real rate of interest is greater than the nominal rate of interest.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 320 Subtopic: Role of the interest rate Type: Application

93. If the expected real rate of interest is 5 percent and the expected rate of inflation is 15 percent, what is the nominal rate of interest?
- A) 5 percent
 - B) 10 percent
 - C) 15 percent
 - D) 20 percent

Ans: D Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 320 Subtopic: Role of the interest rate Type: Calculation

94. The XYZ Corporation can make a real (inflation-adjusted) return on an investment of 9 percent. The nominal rate of interest is 13 percent and the rate of inflation is 7 percent. We can conclude that the:
- A) investment will be profitable.
 - B) investment will be unprofitable.
 - C) real rate of interest is 4 percent.
 - D) real rate of interest is 2 percent.

Ans: A Level: Easy Main Topic: 13.2 Interest: the price of money Page: 320
Subtopic: Role of the interest rate Type: Application

Chapter 13 Rent, Interest, and Profit

95. Which of the following is incorrect?

- A) The nominal interest rate is the rate of interest expressed in terms of current dollars.
- B) The real interest rate is the rate of interest expressed in terms of dollars of constant or inflation-adjusted value.
- C) The nominal interest rate is the real interest rate less the rate of inflation.
- D) During periods of inflation the nominal interest rate will exceed the real interest rate.

Ans: C Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 320 Subtopic: Role of the interest rate Type: Definition

96. If the inflation rate is 10 percent, what is a bank's real rate of return on a loan of \$100 at 10 percent interest?

- A) \$100
- B) \$10
- C) 10 percent
- D) 0 percent

Ans: D Level: Easy Main Topic: 13.2 Interest: the price of money Page: 320
Subtopic: Role of the interest rate Type: Calculation

97. If you pay \$1,980 annually on a \$18,000 loan and the rate of inflation is 3 percent, then the:

- A) real rate of interest is 8 percent.
- B) nominal rate of interest is 8 percent.
- C) real rate of interest is 11 percent.
- D) nominal rate of interest is 14 percent.

Ans: A Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 320 Subtopic: Role of the interest rate Type: Calculation

98. If you pay \$10,625 annually on a \$125,000 loan and the rate of inflation is 3 percent, then the:

- A) real rate of interest is 4.5 percent.
- B) nominal rate of interest is 8.5 percent.
- C) real rate of interest is 6.5 percent.
- D) nominal rate of interest is 11.5 percent.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 320 Subtopic: Role of the interest rate Type: Calculation

Chapter 13 Rent, Interest, and Profit

99. In the 1970s many savings accounts earned nominal interest rates which were less than the rate of inflation. This means that:
- A) money demand exceeded money supply.
 - B) real interest rates were negative.
 - C) real interest rates were positive and unusually high.
 - D) real interest rates exceeded nominal interest rates.

Ans: B Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 320 Subtopic: Role of the interest rate Type: Application

100. In making an investment decision a business firm is most interested in the:
- A) nominal interest rate.
 - B) real interest rate.
 - C) nominal interest rate minus the real interest rate.
 - D) the future supply of loanable funds.

Ans: B Level: Easy Main Topic: 13.2 Interest: the price of money Page: 320
Subtopic: Role of the interest rate Type: Application

Use the following to answer questions 101-102:

Answer the next question(s) using the following table with investment-demand in an economy.

Expected rate of net return, %	Amount of capital goods investment (in billions)
21	\$320
19	350
17	400
15	460
13	530
11	600

101. Refer to the table. If the interest rate is 15 percent:
- A) \$400 billion of investment will be undertaken.
 - B) \$460 billion of investment will be undertaken.
 - C) \$530 billion of investment will be undertaken.
 - D) \$600 billion of investment will be undertaken.

Ans: B Level: Easy Main Topic: 13.2 Interest: the price of money Page: 320
Subtopic: Role of the interest rate Type: Application

Chapter 13 Rent, Interest, and Profit

102. Refer to the table above. An increase in the interest rate by 4 percent would:

- A) increase investment by \$90 billion.
- B) decrease investment by \$90 billion.
- C) decrease investment by \$110 billion.
- D) decrease investment by \$140 billion.

Ans: C Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 320 Subtopic: Role of the interest rate Type: Calculation

103. The entrepreneur:

- A) makes routine day-to-day business decisions.
- B) is a colourful figure from the past who is rarely relevant in today's complex economy.
- C) introduces innovations in the form of new products or new production processes.
- D) receives income mainly as wages.

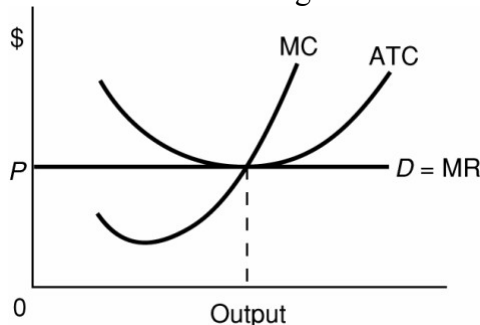
Ans: C Level: Easy Main Topic: 13.3 Economic profit
Page: 322 Subtopic: Role of the entrepreneur Type: Application

104. Entrepreneurs normally do all of the following except:

- A) take the initiative in combining other resources to produce goods or services.
- B) make the basic, nonroutine policy decisions for their organization.
- C) bear the risks involved in introducing new product or production innovations.
- D) avoid accepting risks associated with a business.

Ans: D Level: Easy Main Topic: 13.3 Economic profit Page: 322
Subtopic: Role of the entrepreneur Type: Application

105. On the basis of the diagram we can say that the firm is earning:



- A) a normal profit.
- B) an economic profit.
- C) neither a normal nor an economic profit.
- D) total revenue insufficient to cover its total costs.

Ans: A Level: Moderate Main Topic: 13.3 Economic profit Page: 322
Subtopic: Role of the entrepreneur Type: Graphic

Chapter 13 Rent, Interest, and Profit

106. A normal profit is:

- A) the average profitability of a firm over one complete business cycle.
- B) calculated by subtracting explicit costs from total revenue.
- C) the return required to retain entrepreneurial talent in some particular line of production.
- D) the amount by which total revenue exceeds total costs.

Ans: C Level: Easy Main Topic: 13.3 Economic profit Page: 322
Subtopic: Role of the entrepreneur Type: Definition

107. The minimum rate of return or payment necessary to keep an entrepreneur in some specific line of production is referred to as:

- A) the pure rate of interest.
- B) the real interest rate.
- C) economic profit.
- D) normal profit.

Ans: D Level: Easy Main Topic: 13.3 Economic profit Page: 322
Subtopic: Role of the entrepreneur Type: Definition

108. Economists claim that a farmer who owns her own land and provides all her own labour, and calculates economic and accounting profits for the farm by subtracting explicit costs from total revenues, will always:

- A) overstate her accounting profits.
- B) understate her accounting profits.
- C) overstate her economic profits.
- D) understate her economic profits.

Ans: C Level: Easy Main Topic: 13.3 Economic profit Page: 322-323
Subtopic: Sources of economic profit Type: Application

109. Economic profits:

- A) are identical to accounting profits.
- B) must be earned by every firm which continues to produce in the long run.
- C) serve no useful economic purpose and should never occur in a perfectly competitive economy.
- D) serve in the short run as an incentive to guide production decisions, but indicate the existence of barriers to entry in the long run.

Ans: D Level: Easy Main Topic: 13.3 Economic profit
Page: 322-323 Subtopic: Sources of economic profit Type: Application

Chapter 13 Rent, Interest, and Profit

110. The economic profit is:

- A) the amount by which total revenue exceeds total costs.
- B) determined by subtracting explicit costs from total revenue.
- C) the return required to retain entrepreneurial talent in some particular line of production.
- D) the return to any resource the supply of which is perfectly inelastic.

Ans: A Level: Easy Main Topic: 13.3 Economic profit

Page: 322-323 Subtopic: Sources of economic profit Type: Definition

111. In a perfectly competitive static economy:

- A) the demand for loanable funds would disappear.
- B) uncertainty would increase, causing profit to rise.
- C) economic profit would be zero.
- D) economic profit would be maximized.

Ans: C Level: Easy Main Topic: 13.3 Economic profit

Page: 322-323 Subtopic: Sources of economic profit Type: Application

112. Which of the following represents an uninsurable risk to a business firm?

- A) the possibility that its warehouse will burn down
- B) the possibility that several of its workers will be injured at work
- C) the possibility that an adverse change in consumer tastes will decrease the demand for the firm's product
- D) the possibility that a tornado will damage the plant and stop production for a month

Ans: C Level: Moderate Main Topic: 13.3 Economic profit

Page: 322-323 Subtopic: Sources of economic profit Type: Application

113. Economic profit might result from:

- A) easy entry into industries.
- B) dynamic change and uncertainty.
- C) x-inefficiency.
- D) a decline in entrepreneurship.

Ans: B Level: Easy Main Topic: 13.3 Economic profit Page: 322-323

Subtopic: Sources of economic profit Type: Application

Chapter 13 Rent, Interest, and Profit

114. Economic profit is most closely associated with:

- A) the process of saving and investing.
- B) monopoly, innovation, and uninsurable risks.
- C) long-run perfectly competitive equilibrium.
- D) a static economy.

Ans: B Level: Easy Main Topic: 13.3 Economic profit Page: 322-323
Subtopic: Sources of economic profit Type: Application

115. In long-run equilibrium there will be no economic profit in a perfectly competitive static economy because:

- A) barriers to entry will prevent profit from arising.
- B) there will be no uncertainty, no innovations, and no monopoly.
- C) there will be no need for professional managers and therefore no profit rewards will be needed.
- D) the marginal revenue product of capital will be zero.

Ans: B Level: Moderate Main Topic: 13.3 Economic profit Page: 322-323
Subtopic: Sources of economic profit Type: Application

116. Economic profit affects:

- A) the allocation of resources, but not the level of resource use.
- B) the level of resource use, but not the allocation of resources.
- C) the allocation of resources and the level of resource use.
- D) neither the allocation of resources nor the level of resource use.

Ans: C Level: Moderate Main Topic: 13.3 Economic profit Page: 323
Subtopic: Functions of profit Type: Application

117. Suppose you borrow \$500 and agree to pay this \$500 plus \$75 of interest at the end of a year. The interest rate:

- A) is 10 percent.
- B) is 15 percent.
- C) is 12.5 percent.
- D) cannot be calculated from the information given.

Ans: B Level: Moderate Main Topic: Last word Page: 324 Type: Calculation

Chapter 13 Rent, Interest, and Profit

118. Suppose you borrow \$500 for a year and the lender discounts \$75 of interest at the time the loan is made. The interest rate on this loan:
- A) is 12.5 percent.
 - B) is about 14 percent.
 - C) is about 18 percent.
 - D) cannot be calculated from the information given.

Ans: C Level: Moderate Main Topic: Last word Page: 324 Type: Calculation

119. Suppose you deposit \$5,000 in a bank which pays 10 percent interest compounded twice a year. The actual annual interest rate you receive is:
- A) 10 percent.
 - B) 11 percent.
 - C) 10.25 percent.
 - D) 12 percent.

Ans: C Level: Moderate Main Topic: Last word Page: 324 Type: Calculation

120. Suppose you borrow \$10,000 for one year and must pay \$1,000 in interest at the end of the year. If you are required to repay the loan principle in 12 equal monthly instalments, the effective interest rate is:
- A) 20 percent.
 - B) 10 percent.
 - C) 15 percent.
 - D) 5 percent.

Ans: A Level: Moderate Main Topic: Last word Page: 324 Type: Calculation

121. Suppose a consumer borrowing \$10,000 for one year must pay \$1,000 in interest charges at the end of the year. If he must repay the loan in 12 equal monthly instalments, the effective interest rate he will be charged is:
- A) 20 percent.
 - B) 12 percent.
 - C) 10 percent.
 - D) 5 percent.

Ans: A Level: Moderate Main Topic: Last word Page: 324 Type: Calculation

Chapter 13 Rent, Interest, and Profit

122. If you deposit \$20,000 in a bank which pays 10 percent annual interest compounded twice a year, then the actual interest rate you will receive is:

- A) 9.75 percent.
- B) 10.00 percent.
- C) 10.25 percent.
- D) 10.50 percent.

Ans: C Level: Moderate Main Topic: Last word Page: 324 Type: Calculation

123. Demand is the "active" and supply the "passive" determinant of land rent.

Ans: True Level: Easy Main Topic: 13.1 Economic rent Page: 313
Type: Application

124. Different rents on land reflect differences in the marginal revenue productivity of land.

Ans: True Level: Easy Main Topic: 13.1 Economic rent Page: 313
Type: Application

125. The interest rate is the price paid for the use of money.

Ans: True Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 314 Type: Definition

126. The supply of loanable funds is perfectly elastic.

Ans: False Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 314 Type: Application

127. The quantity of loanable funds supplied is inversely related to the interest rate.

Ans: False Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 314 Type: Application

128. The quantity of loanable funds demanded is directly related to the interest rate.

Ans: False Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 316 Type: Application

129. An increase in the demand for loanable funds would tend to decrease the interest rate.

Ans: False Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316-317 Type: Application

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130. An increase in the rate of return on investments would most likely increase the supply of loanable funds.

Ans: False Level: Moderate Main Topic: 13.2 Interest: the price of money
Page: 316-317 Type: Application

131. If the nominal rate of interest is 8 percent and the inflation rate is 4 percent, the real rate of interest is 4 percent.

Ans: True Level: Easy Main Topic: 13.2 Interest: the price of money
Page: 320 Type: Calculation

132. Economic profits are the salaries received by the hired managers of business corporations.

Ans: False Level: Easy Main Topic: 13.3 Economic profit
Page: 321 Type: Definition

133. A normal profit is not an economic cost.

Ans: False Level: Easy Main Topic: 13.3 Economic profit
Page: 322 Type: Application

134. The payment for taking risks is economic profit.

Ans: True Level: Easy Main Topic: 13.3 Economic profit
Page: 322-323 Type: Application

135. The basic function of profits and losses is to allocate society's scarce resources to their highest valued uses.

Ans: True Level: Easy Main Topic: 13.3 Economic profit Page: 323
Type: Application