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Name TestBanks Chapter 4 Multiple-Choice Questions

Description Question pool for TestBanks Chapter 4 Multiple-Choice Questions

Instructions

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[◀ Add Question Here](#)

Question 1 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following four real interest rates was the lowest over the period 1960–2007?

- Answer** the rate of 90-day Treasury bills
 the rate of BAA corporate bonds
 the rate of 30-year mortgage
 the rate of 10-year Treasury bonds

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 2 **Multiple Choice** **0 points**

Question

The real interest rate is defined as:

- Answer** inflation minus the nominal interest rate.
 the nominal interest rate plus inflation.
 the nominal interest rate divided by inflation.
 the nominal interest rate minus inflation.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 3 **Multiple Choice** **0 points**

Question

The loanable funds theory states that _____ is(are) determined by the _____ for loans.

- Answer** real interest rates; demand
 nominal interest rates; supply and demand
 real interest rates; supply and demand
 inflation; supply

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 4 **Multiple Choice** **0 points**

Question

In the loanable funds theory, _____ is the _____ of a loan.

- Answer** the nominal interest rate; price
 inflation; cost
 the price; interest rate
 the real interest rate; price

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 5 **Multiple Choice** **0 points**

Question

Which of the following are assumptions of the loanable funds theory?

- I. There is only one type of loan.
 II. The interest rate is zero.
 III. Banks are the intermediary between savers and investors.

- Answer** I only
 II only
 III only
 I and III

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 6 **Multiple Choice** **0 points**

Question

Which of the following are assumptions of the loanable funds theory?

- I. There are many types of loans.
 II. There is only one interest rate.
 III. Savers loan to investors via banks.

- Answer** I only
 II only
 III only
 I and III

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 7 **Multiple Choice** **0 points**

Question

Which of the following are assumptions of the loanable funds theory?

- I. There are several types of loans.
 II. There are many different interest rates.

III. Banks are the intermediary between savers and investors.

- Answer**
- II only
 - I only
 - III only
 - None of the answers are correct.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 8 **Multiple Choice** **0 points**

Question

In the loanable funds model, savers and investors:

- Answer**
- use a bank for making loans.
 - never meet each other.
 - meet directly in a market for loans.
 - put loans into a lockbox and borrow from it.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 9 **Multiple Choice** **0 points**

Question

In the loanable funds theory, investment is the:

- Answer**
- demand for loans.
 - supply for loans.
 - interest rate.
 - rate of capital depreciation.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 10 **Multiple Choice** **0 points**

Question

In the loanable funds model, supply of loans in a closed economy is equal to:

- Answer**
- foreign savings.
 - domestic savings.
 - domestic minus foreign savings.
 - domestic plus foreign savings.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 11 **Multiple Choice** **0 points**

Question

In the open-economy version of the loanable funds model, the supply of loans comes from:

- Answer**
- net capital inflows plus savings.
 - capital inflows minus capital outflows.
 - net capital inflows.
 - domestic savers only.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 12 **Multiple Choice** **0 points**

Question

A _____ is when Europeans save in the United States.

- Answer**
- savings plan
 - change in investment
 - capital inflow
 - capital outflow

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 13 **Multiple Choice** **0 points**

Question

When Ford sells some of its stock to a Kenyan national, it is called:

- Answer**
- a capital inflow.
 - a capital outflow.
 - savings.
 - investment.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 14 **Multiple Choice** **0 points**

Question

When Ford sells some of its stock to a Kenyan national, it is called a _____ and when an American buys a bond issued by French car manufacturer Peugeot, it is a _____.

- Answer**
- capital inflow; domestic savings
 - investment; savings
 - capital inflow; capital outflow
 - capital outflow; capital inflow

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 15 **Multiple Choice** **0 points**

Question

We can summarize the loanable funds model by:

- Answer** ✓ supply of loans = savings + capital inflows – capital outflows.
 supply of loans = savings + net capital outflows.
 supply of loans = capital inflows – capital outflows.
 supply of loans = savings + capital inflows.

[Add Question Here](#)

Question 16 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Net capital inflows are:

- Answer** funds provided to a country's investors by foreigners plus funds provided to foreign investors by a country's savers.
 ✓ funds provided to a country's investors by foreigners minus funds provided to foreign investors by a country's savers.
 inflows of investment provided by foreigners to a country minus outflows of investment by a country to a foreign country.
 inflows of investment provided by foreigners to a country minus outflows of savings by a country to a foreign country.

[Add Question Here](#)

Question 17 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The loan-demand relationship is best described by:

- Answer** ↑real interest rate→↑savings→↑loan supply.
 ↑nominal interest rate→↓investment→↓quantity of loans demanded.
 ✓ ↑real interest rate→↓investment→↓quantity of loans demanded.
 ↓real interest rate→↓investment→↓quantity of loans demanded.

[Add Question Here](#)

Question 18 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If you want to buy a new hot dog stand to sell hot dogs on campus, when the _____ your _____.

- Answer** real interest rates fall; quantity of loans demanded falls
 ✓ real interest rates rise; quantity of loans demanded falls
 real interest rate fall; loan demand increases
 nominal interest rates rise; quantity of loans demanded rises

[Add Question Here](#)

Question 19 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The real interest rate is a _____ to a firm, and so, as real interest rates rise, _____.

- Answer** ✓ cost; firms will invest less
 cost; firms will invest more
 revenue; firms will invest more
 cost; savers will save less

[Add Question Here](#)

Question 20 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If the real interest rate rises, there are _____ to _____ and they _____ more.

- Answer** no returns; savers; spend
 lower returns; investors; save
 ✓ higher returns; savers; save
 lower costs; investors; save

[Add Question Here](#)

Question 21 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In the loanable funds theory the *savings* relationship is best described by:

- Answer** ↑real interest rate→↓investment→↓quantity of loans demanded.
 ✓ ↑real interest rate→↑savings.
 ↓real interest rate→↑savings.
 ↑real interest rate→↓quantity of loans supplied.

[Add Question Here](#)

Question 22 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In the loanable funds theory, the loan *demand* relationship is best described by:

- Answer** ↑real interest rate→↑net capital inflows→↑loans supply.
 ↑real interest rate→↓investment→↑quantity of loans supplied.
 ↑real interest rate→↑net capital outflows→↑loans supply.
 ✓ ↑real interest rate→↑net capital inflows→↓quantity of loans demanded.

[Add Question Here](#)

Question 23 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the loanable funds theory, interest rates are determined by the:

- Answer** ✓ supply and demand for loanable funds.
 supply and demand for money.
 differences in interest rate maturities.

federal government.

[◀ Add Question Here](#)

Question 24 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In the loanable funds model, if the current real interest rate is greater than the equilibrium real interest rate then _____ will be greater than _____ and the real interest rate will _____.

- Answer**
- the supply of loanable funds; the demand of loanable funds; fall
 - public savings; private savings; fall
 - ✓ the quantity supplied of loanable funds; quantity demanded of loanable funds; fall
 - the quantity demanded of loanable funds; quantity supplied of loanable funds; rise

[◀ Add Question Here](#)

Question 25 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In the loanable funds model, if the current real interest rate is less than the equilibrium real interest rate then there will be an _____ and the real interest rate will _____.

- Answer**
- excess demand for loans; fall
 - ✓ excess demand for loans; rise
 - excess supply for loans; rise
 - market equilibrium; remain the same.

[◀ Add Question Here](#)

Question 26 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the loanable funds theory, the demand for loans equals:

- Answer**
- the amount of funds available to borrowers.
 - the amount of funds available to lenders.
 - ✓ level of investment in the economy.
 - supply of loans.

[◀ Add Question Here](#)

Question 27 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When investors fear that inflation is going to increase, then:

- Answer**
- the ex ante interest rate falls.
 - ✓ the ex ante real rate rises.
 - the ex post interest rate falls.
 - the ex post interest rate rises.

[◀ Add Question Here](#)

Question 28 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Explain what happens to savings and net capital inflows if the interest rate is 3 percent but the equilibrium real interest rate is 5 percent.

- Answer**
- Savings rise until equilibrium is restored.
 - Savings fall until equilibrium is restored.
 - Savings rise, capital inflows rise, and capital outflows fall until equilibrium is restored.
 - ✓ Savings fall, capital inflows fall, and capital outflows rise until equilibrium is restored.

[◀ Add Question Here](#)

Question 29 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In the loanable funds theory, the demand curve represents the behavior of:

- Answer**
- savers.
 - ✓ investors.
 - the government.
 - the Federal Reserve.

[◀ Add Question Here](#)

Question 30 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the loanable funds theory, a real interest rate that is above the equilibrium real interest rate would:

- Answer**
- encourage investors to demand more funds.
 - ✓ generate a surplus of funds in the market for loanable funds.
 - generate a shortage of funds in the market for loanable funds.
 - encourage individuals to save less.

[◀ Add Question Here](#)

Question 31 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the loanable funds theory, a higher ex ante real interest rate _____ the quantity of loans demanded.

- Answer**
- increases
 - ✓ decreases
 - does not affect
 - has an indeterminate affect on

[Add Question Here](#)

Question 32 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question

If the real interest rate rises in the United States, which of the following investors will decide to buy more U.S. bonds?

- Answer**
- an American investor
 - a European investor
 - a Chinese investor
 - all of these people

[Add Question Here](#)

Question 33 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question

An increase in the budget deficit will shift the loanable funds _____ curve to the _____ and the real interest rate will _____.

- Answer**
- supply; right; fall
 - supply; left; rise
 - demand; right; rise
 - There is not enough information provided to answer this question.

[Add Question Here](#)

Question 34 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question

With baby boomers starting to retire soon we will see a shift in the loanable funds _____ curve to the _____ and the real interest rate will _____.

- Answer**
- demand; right; rise
 - demand; left; fall
 - supply; left; rise
 - supply; right; fall

[Add Question Here](#)

Question 35 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question

A decline in investor confidence will shift the loanable funds _____ curve to the _____ and the real interest rate will _____.

- Answer**
- supply; left; rise
 - supply; right; fall
 - demand; right; rise
 - demand; left; fall

[Add Question Here](#)

Question 36 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question

A decline in foreign saver confidence will shift the loanable funds _____ curve to the _____ and the real interest rate will _____.

- Answer**
- supply; left; rise
 - demand; left; fall
 - supply; right; fall
 - demand; right; rise

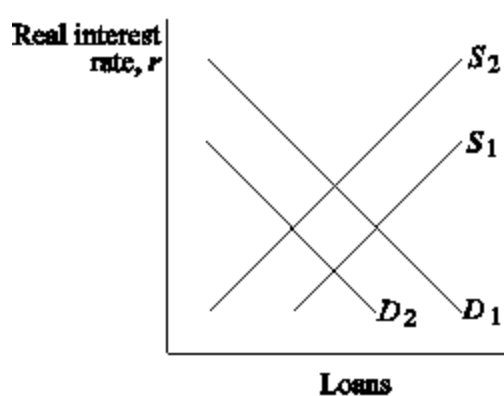
[Add Question Here](#)

Question 37 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question

Figure 4.1: The Loanable Funds Market



Reference: Ref 4-1

(Figure 4.1: The Loanable Funds Market) If there is an increase in government expenditure without a similar increase in taxes, the _____ of (for) loanable funds will shift from _____ and the real interest rate will _____.

- Answer**
- demand; D_1 to D_2 ; fall
 - supply; S_1 to S_2 ; rise
 - supply; S_2 to S_1 ; fall
 - There is not enough information provided to answer this question.

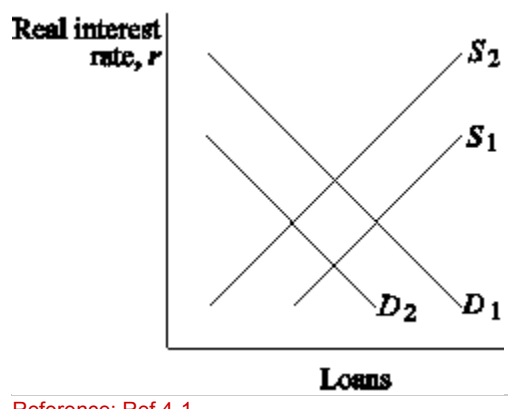
[Add Question Here](#)

Question 38 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question

Figure 4.1: The Loanable Funds Market



Reference: Ref 4-1

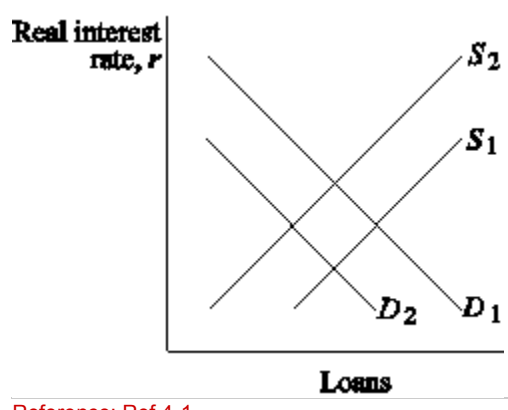
(Figure 4.1: The Loanable Funds Market) If firms believe the economy will begin to pick up in the future, the _____ of(for) loanable funds will shift from _____ and the real interest rate will _____.

- Answer**
- demand; D_2 to D_1 ; rise
 - demand; D_2 to D_1 ; fall
 - supply; S_1 to S_2 ; rise
 - supply; S_2 to S_1 ; fall

[Add Question Here](#)
[Modify](#) [Remove](#)

Question 39 Multiple Choice 0 points

Question
 Figure 4.1: The Loanable Funds Market



Reference: Ref 4-1

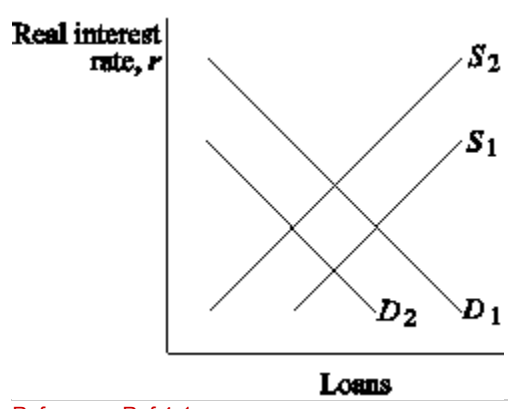
(Figure 4.1: The Loanable Funds Market) If the government offers a new tax-free retirement account, _____ rises, the _____ of(for) loanable funds will shift from _____, and the real interest rate will _____.

- Answer**
- capital inflow; supply; S_2 to S_1 ; rise
 - private savings; supply; S_2 to S_1 ; fall
 - public savings; supply; S_2 to S_1 ; rise
 - total savings; demand; D_1 to D_2 ; rise

[Add Question Here](#)
[Modify](#) [Remove](#)

Question 40 Multiple Choice 0 points

Question
 Figure 4.1: The Loanable Funds Market



Reference: Ref 4-1

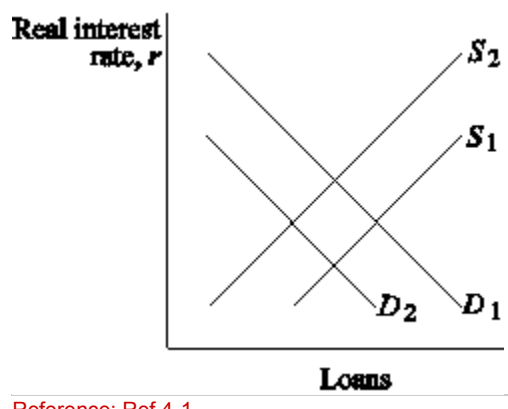
(Figure 4.1: The Loanable Funds Market) If foreign savers' confidence grows the _____ of(for) loanable funds will shift from _____ and the real interest rate will _____.

- Answer**
- demand; D_1 to D_2 ; rise
 - supply; S_1 to S_2 ; rise
 - supply; S_2 to S_1 ; fall
- There is not enough information provided to answer this question.

[Add Question Here](#)
[Modify](#) [Remove](#)

Question 41 Multiple Choice 0 points

Question
 Figure 4.1: The Loanable Funds Market



Reference: Ref 4-1

(Figure 4.1: The Loanable Funds Market) If the government goes from a budget surplus to a budget deficit, the _____ of (for) loanable funds will shift from _____ and the real interest rate will _____.

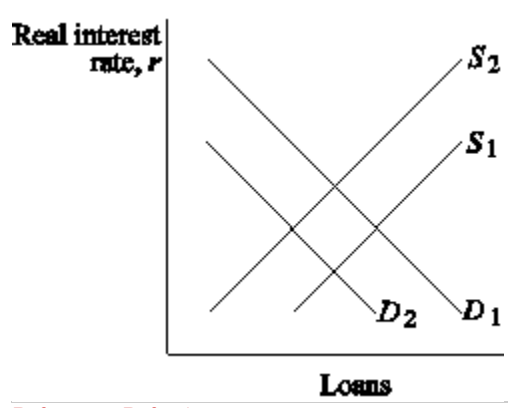
- Answer**
- supply; S_1 to S_2 ; rise
 - supply; S_2 to S_1 ; fall
 - demand; D_1 to D_2 ; rise
 - There is not enough information provided to answer this question.

[Add Question Here](#)

Question 42 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question
Figure 4.1: The Loanable Funds Market



Reference: Ref 4-1

(Figure 4.1: The Loanable Funds Market) If a new production technology is introduced and foreign investors have growing confidence in the domestic economy, the supply of loanable funds _____, the demand for loanable funds _____, and the real interest rate _____.

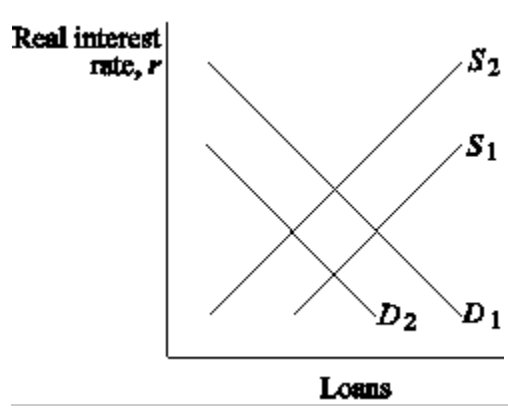
- Answer**
- shifts from S_2 to S_1 ; does not shift; falls
 - does not shift; shifts from D_2 to D_1 ; rises
 - shifts from S_1 to S_2 ; shifts from D_2 to D_1 ; rises
 - shifts from S_2 to S_1 ; shifts from D_2 to D_1 ; will either go up or down

[Add Question Here](#)

Question 43 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question
Figure 4.1: The Loanable Funds Market



Reference: Ref 4-1

(Figure 4.1: The Loanable Funds Market) If the government budget moves from deficit to surplus and investor confidence falls, the supply of loanable funds _____, the demand for loanable funds _____, and the real interest rate _____.

- Answer**
- shifts from S_1 to S_2 ; shifts from D_2 to D_1 ; rises
 - shifts from S_2 to S_1 ; shifts from D_2 to D_1 ; does not change
 - shifts from S_2 to S_1 ; shifts from D_1 to D_2 ; falls
 - does not shift; shifts from D_1 to D_2 ; falls

[Add Question Here](#)

Question 44 Multiple Choice 0 points

[Modify](#) [Remove](#)

Question
According to a study by Thomas Laubach of the Federal Reserve, an increase of the forecasted deficit of one percent of GDP changes the 10-year bond rate by:

- Answer**
- 0.25 percent.
 - +0.1 percent.
 - +0.25 percent.
 - +0.5 percent.

[Add Question Here](#)Question 45 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

An increase in net capital inflows shifts the loanable funds _____ curve to the _____ and the real interest rate _____.

Answer

- supply; left; rises
- supply; right; falls
- demand; left; falls
- demand; left; stays the same

[Add Question Here](#)Question 46 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Capital flight is defined as _____ when _____.

Answer

- a sudden decrease in net capital inflows; foreign savers lose confidence
- a sudden increase in net capital inflows; foreign savers gain confidence
- a gradual decrease in net capital inflows; foreign savers change their saving patterns
- the amount of capital flows from one country to the next; interest rates change

[Add Question Here](#)Question 47 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

When foreign real interest rates increase _____ and the domestic real interest rate _____.

Answer

- net capital inflows decline; rises
- net capital inflows increase; falls
- domestic savings rise; falls
- capital inflows fall; rises

[Add Question Here](#)Question 48 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**If i is the nominal interest rate, r is the real interest rate, π is inflation, and π^e is expected inflation, the Fisher equation is written as:**Answer**

- $i = r + \pi$
- $i = r + \pi^e$
- $r = i + \pi^e$
- $r = i + \pi$

[Add Question Here](#)Question 49 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

The Fisher equation states that the _____ is equal to _____.

Answer

- nominal interest rate; the real interest rate plus the rate of inflation
- nominal interest rate; the real interest rate minus the expected rate of inflation
- nominal interest rate; the real interest rate plus the expected rate of inflation
- miserable index; inflation plus the unemployment rate

[Add Question Here](#)Question 50 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

If we "turn the ex ante real interest rate around," we get the:

Answer

- ex post real interest rate.
- demand for loanable funds.
- equilibrium nominal interest rate.
- Fisher equation.

[Add Question Here](#)Question 51 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

According to the Fisher equation, if expected inflation rises by 1 percent the nominal interest rate:

Answer

- falls by 1 percent.
- stays the same.
- rises by 1 percent.
- increases by the value of the real interest rate.

[Add Question Here](#)Question 52 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

According to the Fisher equation, if inflation rises by 1 percent, the nominal interest rate:

Answer

- rises by 1 percent.
- falls by 1 percent.
- stays the same.
- None of the answers are correct.

[Add Question Here](#)Question 53 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

Question

According to the Fisher equation if expected inflation rises by 5 percent, the nominal interest rate:

- Answer**
- rises by 5 percent.
 - rises by 1 percent.
 - rises by 0.5 percent.
 - falls by 1 percent.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 54 **Multiple Choice** **0 points**

Question

If people form adaptive expectations about inflation, then expected inflation, π^e , is based on:

- Answer**
- all available relevant information.
 - past observations of inflation and interest rates.
 - past observations of inflation only.
 - There is not enough information provided to answer this question.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 55 **Multiple Choice** **0 points**

Question

Adaptive expectations are also called:

- Answer**
- rational expectations.
 - backward-looking expectations.
 - the optimal forecast.
 - forward-looking expectations.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 56 **Multiple Choice** **0 points**

Question

Table 4.1

Expected inflation	5.1%
Inflation	5.0%
Real interest rate	2.0%
Unemployment rate	5.5%

Reference: Ref 4-2

(Table 4.1) The Fisher equation would give you a nominal interest equal to:

- Answer**
- 7.0 percent.
 - 7.1 percent.
 - 7.5 percent.
 - 10.5 percent.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 57 **Multiple Choice** **0 points**

Question

Table 4.1

Expected inflation	5.1%
Inflation	5.0%
Real interest rate	2.0%
Unemployment rate	5.5%

Reference: Ref 4-2

(Table 4.1) The Fisher equation would give you a nominal interest equal to:

- Answer**
- 0.5 percent.
 - 3.0 percent.
 - 3.1 percent.
 - 7.1 percent.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 58 **Multiple Choice** **0 points**

Question

According to the Fisher equation, countries with a high current inflation rate should have a corresponding:

- Answer**
- high nominal interest rate.
 - high real interest rate.
 - low unemployment rate.
 - None of the answers are correct.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 59 **Multiple Choice** **0 points**

Question

According to the Fisher equation, countries with a higher expected inflation rate should have a corresponding:

- Answer**
- high real interest rate.
 - high nominal interest rate.
 - low unemployment rate.
 - None of the answers are correct.

[◀ Add Question Here](#)Question 60 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

According to the loanable funds theory, how would net capital inflows be affected by sustained federal budget deficits in the United States?

Answer

- There would be no impact because the interest rate would not change.
- Net capital inflows would increase because the interest rate would increase.
- Net capital inflows would fall because the interest rate would increase.
- Net capital inflows would increase because the interest rate would fall.

[◀ Add Question Here](#)Question 61 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Suppose that investors based their inflation expectations on rational expectations rather than adaptive expectations and that inflation is expected to be much higher in the future than it is today. How would this assumption about how expectations are formed affect the nominal interest rate?

Answer

- It wouldn't have any effect because investors are not rational.
- It wouldn't have any effect because rational investors don't worry about future inflation since the future is too uncertain.
- It would cause the nominal interest rate to be higher because investors are expecting higher inflation in the future.
- It would cause the nominal interest rate to be lower because investors expect inflation to return to the average.

[◀ Add Question Here](#)Question 62 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

During the financial crisis, private savings rose to 17 percent of GDP in 2009 because:

- I. housing prices fell, causing consumers to feel less wealthy.
- II. fewer home equity loans were available.
- III. consumers became uncertain about the future economy.

Answer

- I and III
- II only
- II and III
- I, II, and III

[◀ Add Question Here](#)Question 63 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

According to the loanable funds theory, an increase in government spending (everything else being the same) _____ public saving and shifts the _____ curve to the left.

Answer

- decreases; supply
- decreases; demand
- increases; supply
- increases; demand

[◀ Add Question Here](#)Question 64 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

According to the loanable funds theory, rumors of a future better performance of the economy make investors more optimistic, shifting the _____ curve to the right and (everything else being the same) _____ the real interest rate.

Answer

- supply; increasing
- supply; decreasing
- demand; increasing
- demand; decreasing

[◀ Add Question Here](#)Question 65 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

According to the Fisher equation, to calculate the ex ante nominal interest rate, one has to add the real interest rate and the:

Answer

- exchange rate.
- expected inflation rate.
- actual inflation rate.
- real exchange rate.

[◀ Add Question Here](#)Question 66 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

According to the loanable funds theory, an increase in net capital inflows shifts the supply curve to the _____ and (everything else being the same) _____ the real interest rate.

Answer

- right; lowers
- right; increases
- left; lowers
- left; increases

[◀ Add Question Here](#)Question 67 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

What is the ex ante nominal interest rate if the real interest rate is 3 percent and the expected inflation rate is 2 percent?

- Answer**
- 1 percent
 - 1 percent
 - ✓ 5 percent
 - 6 percent

◀ [Add Question Here](#)

Question 68 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Everything else being the same, a decrease in the foreign interest rate _____ the U.S. net capital inflow and _____ the U.S. real interest rate.

- Answer**
- does not affect; does not affect
 - does not affect; increases
 - decreases; does not affect
 - ✓ increases; decreases

◀ [Add Question Here](#)

Question 69 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose that you have accumulated a debt of \$40,000 in student loans. If the real interest rate increases by 2 percentage points, by how much would your yearly payments increase?

- Answer**
- \$400
 - \$200
 - ✓ \$800
 - \$1600

◀ [Add Question Here](#)

Question 70 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Consider the loanable funds theory. Suppose that the economy enters a recession in which profitable investment opportunities are scarcer. This event will shift the demand curve to the _____ and (everything else being the same) _____ the equilibrium quantity of loans.

- Answer**
- ✓ left; decrease
 - right; decrease
 - left; increase
 - right; increase

◀ [Add Question Here](#)

Question 71 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the liquidity preference theory, interest rates are determined by the:

- Answer**
- differences in interest rate maturities.
 - federal government.
 - ✓ supply and demand for money.
 - supply and demand for loanable funds.

◀ [Add Question Here](#)

Question 72 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In the liquidity preference model, the supply of and demand for _____ determine the _____.

- Answer**
- ✓ money; nominal interest rate
 - loanable funds; real interest rate
 - money; real interest rate
 - money; expected inflation rate

◀ [Add Question Here](#)

Question 73 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In the liquidity preference theory, money is used as a _____ and bonds _____.

- Answer**
- medium of exchange; flow from foreign savers
 - store of value; pay no interest
 - ✓ medium of exchange; pay interest
 - store of value; pay interest

◀ [Add Question Here](#)

Question 74 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the liquidity preference theory, you hold money:

- Answer**
- to generate interest payments.
 - ✓ to buy goods and services.
 - as a hedge against inflation.
 - as a store of value.

◀ [Add Question Here](#)

Question 75 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In the liquidity preference theory, people use _____ as a medium of exchange.

Answer ✓ money
bonds
either money or bonds
stocks

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 76 **Multiple Choice** **0 points**

Question

In the liquidity preference model, the supply of money is controlled by:

Answer investment banks.
domestic and foreign savings.
the central government.
✓ the central bank.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 77 **Multiple Choice** **0 points**

Question

To increase and decrease the supply of money, the central bank:

Answer prints and burns money, respectively.
buy bonds.
✓ buys and sells bonds, respectively.
sells and buys bonds, respectively.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 78 **Multiple Choice** **0 points**

Question

In the liquidity preference model, the interest rate is the:

Answer ✓ opportunity cost of holding money.
return to holding stocks.
opportunity cost of holding bonds.
return on a checking account.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 79 **Multiple Choice** **0 points**

Question

In the liquidity preference model, the interest rate is the:

Answer ✓ opportunity cost of holding money.
return to holding money.
opportunity cost of holding bonds.
federal funds rate.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 80 **Multiple Choice** **0 points**

Question

In the liquidity preference model, the opportunity cost of holding bonds and *not* money is:

Answer ✓ the time required to convert bonds to money.
the interest rate.
the loss of consumption.
returns made on a checking account.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 81 **Multiple Choice** **0 points**

Question

In the liquidity preference theory, holding less money makes it:

Answer more likely you will be better when interest rates are low.
✓ more cumbersome to buy things.
difficult to earn higher interest rates.
more likely there will be a capital outflow.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 82 **Multiple Choice** **0 points**

Question

There is _____ relationship between the _____ and money demand in the liquidity preference model.

Answer a negative; real interest rate
✓ a negative; nominal interest rate
a positive; nominal interest rate
no; nominal interest rate

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 83 **Multiple Choice** **0 points**

Question

In the liquidity preference model, the _____ the nominal interest rate the _____ money you hold.

Answer ✓ lower; more
lower; less
higher; more

There is not enough information provided to answer this question.

[Add Question Here](#)

Question 84 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question

You go to the bank and you see that the nominal interest rate is rising from 3 percent to 5 percent, so you decide to hold:

- Answer**
- less money.
 - more money.
 - no money.
 - less bonds.

[Add Question Here](#)

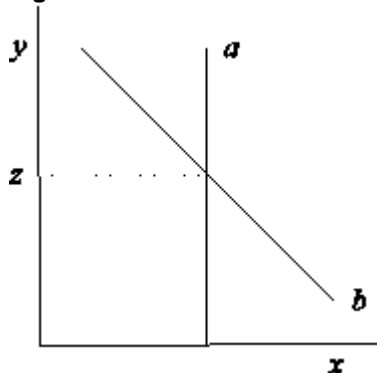
Question 85 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question

Figure 4.2: The Market for Money



Reference: Ref 4-3

(Figure 4.2: The Market for Money) In the liquidity preference model, the y-axis is the _____ and the x-axis is the _____.

- Answer**
- real interest rate; quantity of bonds
 - money demand; money supply
 - nominal interest rate; quantity of money
 - nominal interest rate; quantity of bonds

[Add Question Here](#)

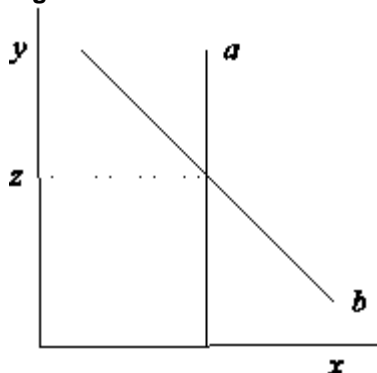
Question 86 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question

Figure 4.2: The Market for Money



Reference: Ref 4-3

(Figure 4.2: The Market for Money) In the liquidity preference model, the curve labeled a is _____ and the curve labeled b is _____.

- Answer**
- money demand; money supply
 - money supply; money demand
 - bond supply; money demand
 - supply of loanable funds; money demand

[Add Question Here](#)

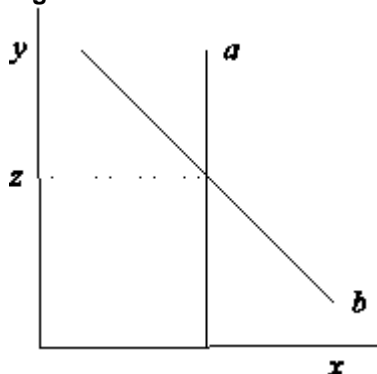
Question 87 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question

Figure 4.2: The Market for Money



Reference: Ref 4-3

(Figure 4.2: The Market for Money) In the liquidity preference model, the curve labeled a is _____, the curve labeled b is _____, and z is the _____.

- Answer**
- money supply; money demand; equilibrium nominal interest rate
 - bond supply; money demand; equilibrium nominal interest rate
 - money demand; money supply; rate of inflation
 - supply of loanable funds; demand of loanable funds; equilibrium nominal interest rate

[Add Question Here](#)

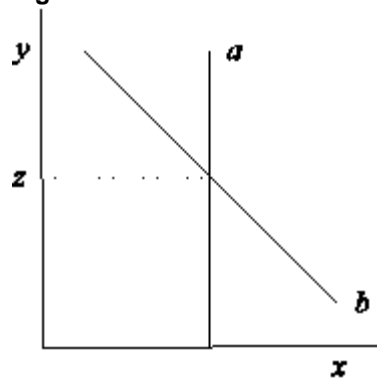
Question 88 Multiple Choice

0 points

[Modify](#) [Remove](#)

Question

Figure 4.2: The Market for Money



Reference: Ref 4-3

(Figure 4.2: The Market for Money) In the liquidity preference model, the curve labeled a is _____, the curve labeled b is _____, y -axis is _____, and the x -axis is the _____.

- Answer**
- bond supply; money demand; real interest rate; quantity of money
 - money demand; money supply; nominal interest rate; quantity of money
 - bond supply; bond demand; money supply; money demand
 - money supply; money demand; nominal interest rate; quantity of money

[◀ Add Question Here](#)

Question 89

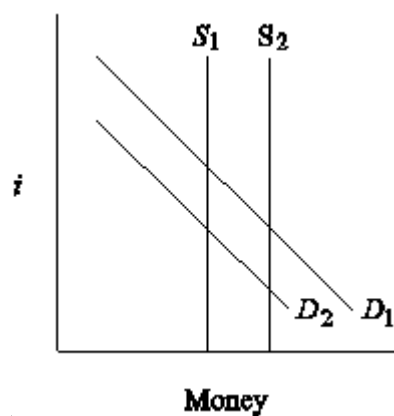
Multiple Choice

0 points

[Modify](#)
[Remove](#)

Question

Figure 4.3: The Market for Money



Reference: Ref 4-4

(Figure 4.3: The Market for Money) If the central bank decides to decrease money, the _____ and the _____.

- Answer**
- money supply shifts from S_1 to S_2 ; nominal interest rate falls
 - money supply shifts from S_2 to S_1 ; nominal interest rate rises
 - money demand shifts from D_2 to D_1 ; nominal interest rate rises
 - money demand stays constant; real interest rises

[◀ Add Question Here](#)

Question 90

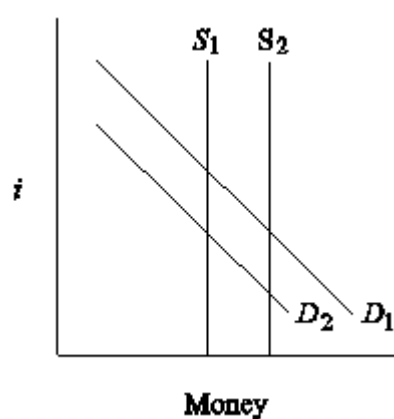
Multiple Choice

0 points

[Modify](#)
[Remove](#)

Question

Figure 4.3: The Market for Money



Reference: Ref 4-4

(Figure 4.3: The Market for Money) The introduction of Internet banking has made it easier to transfer funds from one account to the next. The result of this is that the _____ in Figure 4.3 shifts from _____.

- Answer**
- money demand; D_1 to D_2
 - money demand; D_2 to D_1
 - money supply; S_1 to S_2
 - money supply; S_2 to S_1

[◀ Add Question Here](#)

Question 91

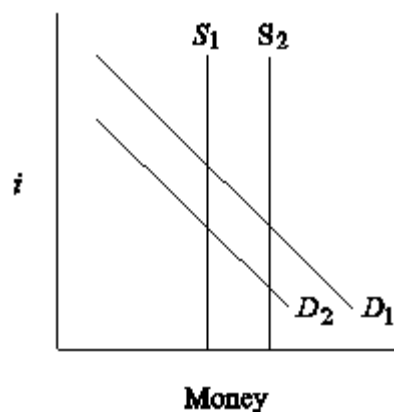
Multiple Choice

0 points

[Modify](#)
[Remove](#)

Question

Figure 4.3: The Market for Money



Reference: Ref 4-4

(Figure 4.3: The Market for Money) Suppose that everyone's income rose nationwide and the central bank decided to buy bonds. In Figure 4.3, this would be shown as a shift in money demand from _____, a shift in money supply from _____, with the nominal interest rate _____.

- Answer**
- D_1 to D_2 ; S_2 to S_1 ; falling
 - D_1 to D_2 ; S_2 to S_1 ; staying more or less the same
 - D_2 to D_1 ; S_1 to S_2 ; staying more or less the same
 - There is not enough information provided to answer this question.

[Add Question Here](#)

Question 92 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The loanable funds theory best explains the _____ nature of interest rates, and the liquidity preference theory best explains the _____ nature of interest rates.

- Answer**
- long-run; long-run
 - short-run; long-run
 - long-run; daily
 - long-run; short-run

[Add Question Here](#)

Question 93 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In contrast with the loanable funds theory, which explains the _____ interest rate, the liquidity preference theory explains the _____ interest rate.

- Answer**
- expected; nominal
 - real; expected
 - nominal; real
 - real; nominal

[Add Question Here](#)

Question 94 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the assumptions of the liquidity preference theory:

- Answer**
- individuals can hold their wealth in bonds only.
 - bonds and money pay interest.
 - the money supply is controlled by the central bank.
 - the money supply is controlled by commercial banks.

[Add Question Here](#)

Question 95 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Consider the liquidity preference theory. A nominal interest rate below the equilibrium interest rate will:

- Answer**
- encourage individuals to buy bonds.
 - encourage individuals to sell bonds.
 - create a surplus of money.
 - have no effect on individuals' willingness to buy or sell bonds.

[Add Question Here](#)

Question 96 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Consider the liquidity preference theory. A decrease in the price level (i.e., a deflation):

- Answer**
- shifts the supply curve to the left.
 - shifts the demand curve to the left.
 - shifts the supply curve to the right.
 - shifts the demand curve to the right.

[Add Question Here](#)

Question 97 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

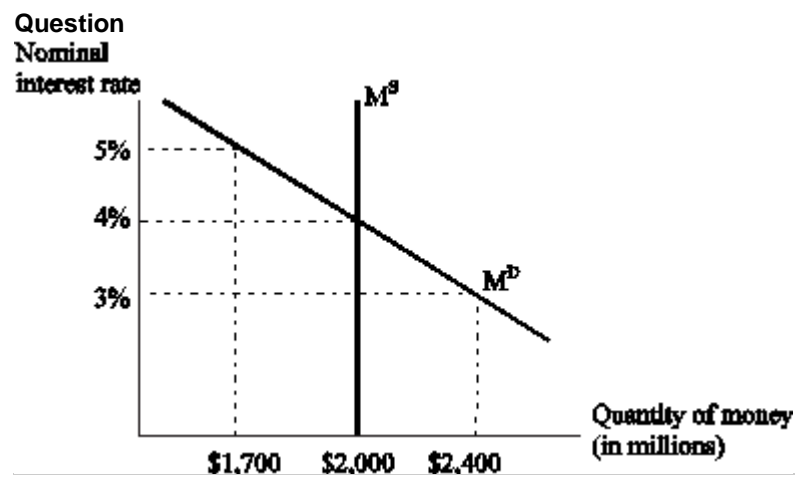
Consider the liquidity preference theory. If everything else remains the same, an increase in real GDP:

- Answer**
- does not affect supply and demand in the market for money.
 - shifts the supply curve to the right.
 - shifts the demand curve to the right.
 - decreases the nominal interest rate.

[Add Question Here](#)

Question 98 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)



Reference: Ref 4-5

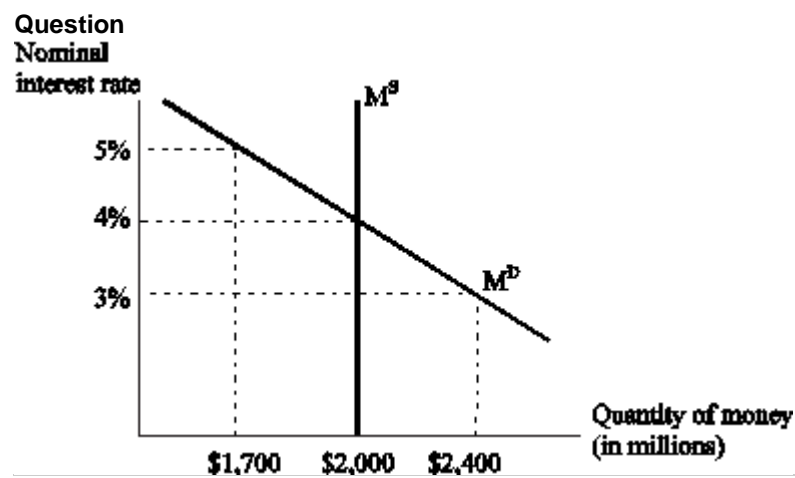
Consider the figure. If the interest rate is set at 3 percent, individuals will _____ bonds for a total of _____.

- Answer**
- buy; \$700 million
 - buy; \$400 million
 - ✓ sell; \$400 million
 - sell; \$700 million

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 99 **Multiple Choice** **0 points**



Reference: Ref 4-5

Consider the figure. If the interest rate is set at 5 percent, the _____ of money is _____.

- Answer**
- ✓ surplus; \$300 millions
 - surplus; \$400 millions
 - shortage; \$400 millions
 - shortage; \$300 millions

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 100 **Multiple Choice** **0 points**

Question
Which of the following factors best explain(s) differences in interest rates?

- I. maturity
- II. default risk
- III. liquidity

- Answer**
- I only
 - II only
 - III only
 - ✓ All of the answers are correct.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 101 **Multiple Choice** **0 points**

Question
Which of the following factors best explain(s) differences in interest rates?

- I. maturity
- II. liquidity
- III. taxation

- Answer**
- I only
 - II only
 - III only
 - ✓ All of the answers are correct.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 102 **Multiple Choice** **0 points**

Question
The relationship between bond interest rates with different maturities is called the:

- Answer**
- liquidity preference theory.
 - ✓ term structure of interest rates.
 - supply of loanable funds.
 - balance of payments.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 103 **Multiple Choice** **0 points**

Question

The graph that compares interest rates with different maturities is called the:

- Answer**
- Phillips curve.
 - Fisher curve.
 - Keynesian cross.
 - yield curve.

[◀ Add Question Here](#)

Question 104 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If $i_2(2020)$ denotes the annual interest rate on 2-year bonds issued in 2020 and $i_1(2020)$ and $i_1(2021)$ represent interest rates on 1-year bonds purchased in 2020 and 2021, the equilibrium relationship between the 2-year bond and the two 1-year bonds is:

- Answer**
- $i_2(2020) = i_1(2020) + i_1(2021)$.
 - $i_2(2020) = (1/2)[i_1(2020) + i_1(2021)]$.
 - $i_2(2020) = (1/2)[i_1(2020) - i_1(2021)]$.
 - $i_2(2020) = 2 \cdot [i_1(2020) + i_1(2021)]$.

[◀ Add Question Here](#)

Question 105 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If $i_2(t)$ and $i_1(t)$ are the interest rates on a 2-year and 1-year bond issued this year and $i_1(t+1)$ is the 1-year rate next year, the equilibrium relationship between the 2-year bond and the two 1-year bonds is:

- Answer**
- $i_2(t) = [i_1(t+1) - i_1(t+1)]^{12}$.
 - $i_2(t) = 2 \cdot [i_1(t) + i_1(t+1)]$.
 - $i_2(t) = (1/2)[i_1(t) + i_1(t+1)]$.
 - $i_2(t) = i_1(t) + i_1(t+1)$.

[◀ Add Question Here](#)

Question 106 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If the interest rate on an n -period bond in period t is $i_n(t)$, where $n > 1$, and the interest rate on n 1-year bonds is written as $i_1(t), i_1(t+1), \dots, i_1(t+n-1)$, the equilibrium relationship between the n -year bond and the n 1-year bonds is:

- Answer**
- $i_n(t) = (1/n)[i_1(t) + i_1(t+1) + \dots + i_1(t+n-1)]$.
 - $i_n(t) = n \cdot [i_1(t) + i_1(t+1) + \dots + i_1(t+n-1)]$.
 - $i_n(t) = \sqrt[n]{[i_1(t) - i_1(t+1) - \dots - i_1(t+n-1)]}$.
 - $i_n(t) = (1/n)[i_1(t) + E i_1(t+n-1)]$.

[◀ Add Question Here](#)

Question 107 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the expectations theory of the term structure, the n -period interest rate is the

- Answer**
- average of the known interest rates over the next n periods.
 - average of the current one-period rate and expected n^{th} period rate.
 - median of the current one-period rate and expected rates over the next $n-1$ periods.
 - average of the current one-period rate and expected rates over the next $n-1$ periods.

[◀ Add Question Here](#)

Question 108 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the expectations theory of the term structure, the equilibrium relationship between the n -period interest rate and the n 1-year interest rates is:

- Answer**
- $i_n(t) = (1/n)[i_1(t) + i_1(t+1) + \dots + i_1(t+n-1)]$.
 - $E i_n(t) = (1/n)[i_1(t) + i_1(t+1) + \dots + i_1(t+n-1)]$.
 - $E i_n(t) = n \cdot [i_1(t) + E i_1(t+1) + \dots + E i_1(t+n-1)]$.
 - $i_n(t) = (1/n)[i_1(t) + E i_1(t+1) + \dots + E i_1(t+n-1)]$.

[◀ Add Question Here](#)

Question 109 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The expectations theory of the term structure of interest rates ignores:

- Answer**
- risk.
 - different maturities.
 - the role of expectations.
 - None of the answers are correct.

[◀ Add Question Here](#)

Question 110 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

To account for risk in the expectations theory of the term structure we:

- Answer** set the n period rate equal to the risk premium.
 add a risk premium to the current period's 1-year interest rate.
- ✓ add a risk premium to the average of the current one-period rate and expected rates over the next $n - 1$ periods.
 divide the average of the current one-period rate and expected rates over the next $n - 1$ periods by a risk premium.

[Add Question Here](#)

Question 111 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When we include a risk premium, τ_n , to the expectations theory of the term structure of interest rates, we have:

- Answer**
- $i_n(t) = (1/\tau_n)[i_1(t) + i_1(t+1) + \dots + i_1(t+n-1)]$.
- $Ei_n(t) = (1/n)[i_1(t) + i_1(t+1) + \dots + i_1(t+n-1) + \tau_n]$.
- ✓ $i_n(t) = (1/n)[i_1(t) + Ei_1(t+1) + \dots + Ei_1(t+n-1)] + \tau_n$.
- $Ei_n(t) = \tau_n \sqrt[n]{[i_1(t) + Ei_1(t+1) + \dots + Ei_1(t+n-1)]}$.

[Add Question Here](#)

Question 112 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

One way to interpret the risk premium in the expectations theory of the term structure of interest rates is as a(n):

- Answer**
- ✓ term premium.
 bond premium.
 inflation premium.
 tax premium.

[Add Question Here](#)

Question 113 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If the n 1-year interest rates are expected to remain constant and the term premium rises with maturity, the yield curve would:

- Answer**
- ✓ slope upward.
 slope downward.
 be flat.
 shift upward.

[Add Question Here](#)

Question 114 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

If the n 1-year interest rates are expected to fall dramatically, the yield curve would:

- Answer**
- slope upward.
 slope downward.
 ✓ shift downward.
 There is not enough information provided to answer the question.

[Add Question Here](#)

Question 115 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

An unusually steep yield curve suggests that:

- Answer** ✓ short-term interest rates are expected to rise.
 short-term interest rates are expected to fall.
 the economy is headed for a recession.
 long-term interest rates will rise.

[Add Question Here](#)

Question 116 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Historically, most inverted yield curves have been caused by the Fed in an effort to:

- Answer**
- increase economic growth.
 ✓ slow inflation.
 increase unemployment.
 demonstrate their power.

[Add Question Here](#)

Question 117 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Yield curves usually slope upward because ____; the yield curve will slope down because ____.

- Answer** ✓ the term premium is rising; future short-term rates are expected to fall
 inflation is expected to rise; future short-term rates are expected to rise
 short-term interest rates are expected to remain constant; short-term interest rates are expected to rise
 short-term interest rates are expected to rise; long-term rates are expected to rise

[Add Question Here](#)

Question 118 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In December 2009, the Federal Reserve was fighting a deep recession and kept short-term interest rates near zero. Because expected short-term rates were ____ than current short-term rates, the yield curve sloped ____.

- Answer**
- lower; upward
 - lower; downward
 - ✓ higher; upward
 - higher; downward

◀ [Add Question Here](#)

Question 119 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The yield curve sloped ____ in 1981 because the Fed was more worried about ____ than about ____ than it was in 2009.

- Answer**
- upward; growth; inflation
 - upward; inflation; growth
 - downward; growth; inflation
 - ✓ downward; inflation; growth

◀ [Add Question Here](#)

Question 120 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Consider the expectations theory of the term structure. Assuming that the short-term (1 period) interest rate today is 2 percent, and that the short-term (1 period) interest rates are expected to be 3 percent and 4 percent in the next years, what is the 3-period interest rate today?

- Answer**
- 2 percent
 - 9 percent
 - 5 percent
 - ✓ 3 percent

◀ [Add Question Here](#)

Question 121 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Consider the expectations theory of the term structure. Suppose the 1-period interest rate today is 3 percent and that the 2-period interest rate today is 2.5 percent. What is the expected 1-period interest rate for the next year (or period)?

- Answer**
- 3 percent
 - ✓ 2 percent
 - 2.5 percent
 - 5.5 percent

◀ [Add Question Here](#)

Question 122 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Consider the expectations theory (of the term structure) with a term premium. What is the term premium for a 5-period bond if the interest rate on the 5-period bond today is 6.25 percent and 1-period interest rates are expected to remain constant at their current level of 5 percent?

- Answer**
- ✓ 1.25 percent
 - 11.25 percent
 - 1.25 percent
 - 5 percent

◀ [Add Question Here](#)

Question 123 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Consider the expectations theory (of the term structure) with a term premium. What is the expected 1-period interest rate next year (or period) if today the 2-period interest rate is 5 percent, the 1-period interest rate is 3.5 percent, and the term premium for the 2-period interest rate is 1 percent?

- Answer**
- 3.5 percent
 - 5.0 percent
 - ✓ 4.5 percent
 - 1.0 percent

◀ [Add Question Here](#)

Question 124 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

An upward-sloping yield curve unambiguously indicates that short-term interest rates are expected to ____ in the future.

- Answer**
- decrease sharply
 - ✓ increase
 - remain constant
 - decrease moderately

◀ [Add Question Here](#)

Question 125 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose the interest rate on a 1-year bond is 4.5 percent, the interest rate on a 2-year bond is 4.25 percent; the interest rate on a 5-year bond is 4.0 percent, and the interest rate on a 10-year bond is 3.5 percent. According to this information, the yield curve will be:

- Answer**
- ✓ inverted.
 - upward sloping.
 - flat.
 - U-shaped.

◀ [Add Question Here](#)

Question 126 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Using the Standard & Poor's bond rating, the *least* risky bonds are rated:

- Answer**
- AAA.
 - A+.
 - A.
 - ZZZ.

[◀ Add Question Here](#)

Question 127 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The reason for the fall of Japan's debt rating by Standard & Poor's in 2001 was:

- Answer**
- a high unemployment rate.
 - high taxes.
 - the large government debt.
 - hyperinflation.

[◀ Add Question Here](#)

Question 128 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

So-called "junk bonds" are rated _____ by Standard & Poor's.

- Answer**
- A or less
 - less than BBB
 - C- or less
 - D

[◀ Add Question Here](#)

Question 129 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In 2010, General Motors bonds are:

- Answer**
- blue chip.
 - rated AAA.
 - A+.
 - junk bonds.

[◀ Add Question Here](#)

Question 130 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The high-yield spread is the difference between interest rates on _____ corporate bonds with 10-year maturities and reflects the _____.

- Answer**
- A and AAA; state of the economy
 - BBB and AAA; risk premium
 - C and AAA; inflation rate
 - C and AAA; risk premium

[◀ Add Question Here](#)

Question 131 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Countries tend to have a low credit rating on their sovereign debt because of:

- Answer**
- relatively high budget deficits.
 - a possibility of default.
 - political uncertainty.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 132 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In early 2010, the possibility that Greece might default on its sovereign debt caused the spread between German and Greek debt to _____ by about _____ percentage points.

- Answer**
- fall; 3
 - fall; 10
 - rise; 5
 - rise; 8

[◀ Add Question Here](#)

Question 133 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Time Warner received a low bond rating from the credit rating agencies because:

- Answer** the firm had accumulated a high level of debt from purchasing other companies.
- the firm decided to expand into the newspaper publishing business.
 - investors feared that its chief executive officer would be fired.
 - people were watching more TV than in the past.

[◀ Add Question Here](#)

Question 134 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

In 2008 and 2009, the credit rating agencies downgraded General Motors debt to junk status because:

- Answer**
- investors feared the company would go bankrupt.
 - the recession caused consumer demand for GM vehicles to fall.
 - the company had difficulty meeting its financial obligations.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 135 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The high-yield spread is considered a _____ indicator because it starts _____ near the _____ of an economic downturn.

- Answer**
- leading; rising; beginning
 - leading; falling; beginning
 - lagging; rising; end
 - lagging; falling; end

[◀ Add Question Here](#)

Question 136 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose country A has never defaulted on its sovereign debt, while country B has a record of defaulting on its debt a few times in the past. According to this information, the default risk of country A's bond is _____ than that of country B's bond, and the interest rate paid on country A's bond is _____ than that of country B's bond.

- Answer**
- higher; lower
 - lower; lower
 - lower; higher
 - higher; higher

[◀ Add Question Here](#)

Question 137 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Rumors about a huge budget deficit and the impossibility of the government being able to raise taxes will _____ the country's sovereign debt's risk of default, making it _____ to issue (i.e., sell) government bonds.

- Answer**
- increase; easier
 - increase; more difficult
 - decrease; more difficult
 - decrease; easier

[◀ Add Question Here](#)

Question 138 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Consider the following bonds and their ratings (in parentheses). Which of these bonds are considered "junk bonds"?

- Answer**
- DEC Corp. (CC)
 - XYZ Inc. (D)
 - FGH Inc. (B)
 - DEC Corp. (CC), XYZ Inc. (D), and FGH Inc. (B)

[◀ Add Question Here](#)

Question 139 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Everything else being the same, a junk bond will offer a _____ interest rate than a (same maturity) AAA bond, and a _____ interest rate than a (same maturity) U.S. Treasury bond.

- Answer**
- higher; lower
 - higher; higher
 - lower; lower
 - lower; higher

[◀ Add Question Here](#)

Question 140 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose the interest rate on a 10-year AAA rating bond is 4 percent and that the interest rate on a 10-year BBB rating bond is 6 percent. What is the high-yield spread?

- Answer**
- 10 percent
 - 2 percent
 - 2 percent
 - 5 percent

[◀ Add Question Here](#)

Question 141 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose a corporation with a record of declaring bankruptcy recently wants to issue a 5-year bond. Considering that the interest rate on the 5-year U.S. Treasury bond is 3.5 percent and that the interest rate on an AAA bond is 4.5 percent, which of the following is a good candidate for the interest rate on the 5-year bond of this corporation?

- Answer**
- 4.00 percent
 - 3.75 percent
 - 3.00 percent
 - 6.50 percent

[◀ Add Question Here](#)

- Question 142 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
The more liquid an asset is, the _____ its _____.
- Answer**
- more; risk premium
 - more; default risk
 - ✓ less; risk premium
 - higher; interest rate
- [Add Question Here](#)
- Question 143 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Corporate bonds have higher interest rates than treasuries because of:
- Answer**
- lower default risk.
 - lower taxes on returns.
 - ✓ higher default risk.
 - higher liquidity.
- [Add Question Here](#)
- Question 144 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Because returns on municipal bonds are _____, they have lower _____.
- Answer**
- ✓ tax free; interest rates
 - taxed heavily; default risk
 - backed by local governments; liquidity
 - very risky; interest rates
- [Add Question Here](#)
- Question 145 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
_____ is generally the lowest return bond and _____ is the highest.
- Answer**
- Junk; municipal
 - Treasury; municipal
 - Corporate; junk
 - ✓ Municipal; corporate
- [Add Question Here](#)
- Question 146 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Normally, the return on municipal bonds is _____ than on corporate bonds because municipal bond returns are _____. However, the behavior of municipal-bond interest rates changed during the financial crisis of 2007–2009 because _____.
- Answer**
- higher; tax free; tax revenue rose
 - ✓ lower; tax free; tax revenue fell
 - higher; taxable; tax revenue rose
 - lower; taxable; tax revenue fell.
- [Add Question Here](#)
- Question 147 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Everything else being the same, as the number of buyers and sellers in the corporate bonds' market increases, corporate bonds' liquidity _____ and their interest rates _____.
- Answer**
- increase; increase
 - ✓ increase; decrease
 - decrease; increase
 - decrease; decrease
- [Add Question Here](#)
- Question 148 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Suppose that the interest rate on a 10-year U.S. Treasury bond is 4.5 percent and that the interest rate on a 10-year AAA corporate bond is 4.0 percent. Which of the following would be a good estimate of the liquidity premium required by corporate bond holders?
- Answer**
- 1.5 percent
 - 1.0 percent
 - ✓ 0.5 percent
 - zero
- [Add Question Here](#)
- Question 149 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Which of the following statements about municipal bonds is true?
- Answer**
- ✓ Municipal bonds are issued by state and local governments in the United States.
 - Interest income on municipal bonds is subject to federal income taxes.
 - Municipal bonds usually pay higher interest rates than (same maturity) U.S. Treasury bonds.
 - Municipal bonds are issued by the U.S. Treasury.
- [Add Question Here](#)
- Question 150 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

Which of the following statements is true?

- Answer**
- Tax considerations and liquidity characteristics do not affect the interest rate on a given bond.
 - Corporate bonds are more liquid than U.S. Treasury bonds.
 - ✓ During a recession, the high-yield spread usually increases.
 - During a recession, the high-yield spread usually decreases.

[◀ Add Question Here](#)Question 151 **Multiple Choice****0 points**[Modify](#) [Remove](#)**Question**

Under normal circumstances (i.e., no crisis) a municipal bond would pay a _____ interest rate than a (same maturity) U.S. Treasury bond, reflecting the fact that income interest on municipal bonds _____.

- Answer**
- higher; is tax free
 - higher; is taxed at a higher rate than income interest on U.S. Treasury bonds
 - ✓ lower; is tax free
 - lower; is taxed at a higher rate than income interest on U.S. Treasury bonds

[◀ Add Question Here](#)

OK