

ECO 2301 – Practice Questions (Part 2)

- Q23. A bond is made up of all the following components except.
- A. Principal
 - B. Discount rate
 - C. Date of maturity
 - D. Rate of interest
- Q24. What is the difference between equity and debt financing?
- A. Debt financing is borrowing bonds.
 - B. Equity financing is selling share of firm to increase capital.
 - C. If firm sales too many shares the shareholders, they achieve voting power to make decisions for the company, the highest percentage ownership.
 - D. Debt financing is the fastest way to finance.
 - E. All of the above
- Q25. Which one of the following is not a characteristic of bonds?
- A. Term
 - B. Credit risk
 - C. Inflation Protection
 - D. Tax treatment
- Q26. All of the following definitions are correct except.
- A. Goodwill – when taxes are added to loans/bonds.
 - B. Term – length of time until the bond matures.
 - C. Credit risk – probability of borrower default (does not pay bond)
 - D. Tax treatment – way of the tax laws treats the interest earned on the bond (tax deductible)
- Q27. What is the correct definition of municipal bonds?
- A. When you borrow from the federal reserves
 - B. When you borrow from other banks
 - C. Issues by state and local governments, no tax and lower interest rates
 - D. Interest does not need to be paid back.
- Q28. What is the wealth effect is?
- A. Opposite of inflation in sense that price levels decrease, and salaries stay the same.
 - B. Everyone is rich for a moment or has more money to spend.
 - C. Price levels increase.
 - D. You can buy less now than before.
 - E. A&B
 - F. C&D
- Q29. What is the difference between reserve ratio and reserve requirements?
-

ACADEMIC CENTER FOR EXCELLENCE
LEARNING TEAM



Q30. Fill in the blank.

In labor economics, _____ are a level of wages paid to workers above the minimum wage to retain a skilled and efficient workforce.

Q31. Match the words to their correct definition. Four types of unemployment

Word bank:

Seasonal unemployment
Frictional unemployment

Cyclical unemployment
Structural unemployment

1. There are more people looking for jobs than there are jobs available.
_____.
2. Workers go find jobs that suit them, and their personalities more and willingly leave jobs.
_____.
3. Job positions are replaced with robots, therefore, creating fewer jobs for seeks.
_____.
4. Some certain people lose jobs when demand of the labor decreases.
_____.

Q32. What does the Labor Force Participation Rate consist of?

- A. Current labor force
- B. Working Age Population, people above 16.
- C. Actively looking for work people
- D. All of the above

Q33. Who is not part of the participation rate?

- A. Over 4 weeks of not looking for work.
- B. Retried
- C. Students
- D. All of the above

Q34. Define Inflation Tax.

_____.

Q35. What does TVM stand for?

- A. Time value of money
- B. Traveling via money
- C. To vote majority
- D. Taxes via municipals

ACADEMIC CENTER FOR EXCELLENCE
LEARNING TEAM

Q36. Define Inflation Fallacy

_____.

Q37. Define Shoe leather cost.

_____.

Q38. Define Menu costs.

_____.

Q39. Define Fisher effect.

_____.

Q40. What is the GDP formula, and what does it stand for?

- A. $C = I + y + NE - G$
- B. $NE = G + I + C$
- C. $Y = C + I + G + NE$
- D. $I = G + C - Y + NE$

Match to correct meaning.

Y
C
I
G
NE

Government spending
Public and Private investment
Exports - Imports
Consumer spending
GDP

Q41. What the equation for public savings?

- A. $T - G$
- B. $G - T$
- C. $C - G$
- D. $I - G$

Q42. Whats the equation for private savings?

- A. $I - C$
- B. $C + G + Y$
- C. $T - G$
- D. $Y - C - G$.

Q43. Whats the equation for national savings?

- A. Investments + Government
- B. Public+ private sayings
- C. Consumer spending + Investment
- D. Government spending – Consumer Spending

Q44. What is budget surplus and deficit mean and how do you calculate it?

_____.

Solutions:

- 23. B
- 24. E
- 25. C
- 26. A

(Goodwill = charity, doing something good out of the heart or giving donations to charities).

- 27. C
- 28. E

29. Reserve ratio is what the bank is required to hold on to in cash in their vaults by the federal bank (law) and reserve requirement is the banks own policy of required cash that needs to be in the bank in case of sudden increase in withdraw money.

30. Efficiency Wages

Explanation: The theory is “Happy workers more productivity” This is accomplished by providing benefits to workers such as higher pay, more breaks, paid time off, better break rooms etc.

(Efficiency wage theory posits that an employer must pay its workers high enough so that workers are incentivized to be productive and that highly skilled workers do not quit. Efficiency wage theory helps explain why firms seem to overpay for labor by arguing that these increased wages boost overall productivity and profitability for a firm over the long run. Example warehouse, truck drivers, or especially boring long working jobs)

31. Cyclical = 1, Frictional = 2, Structural = 3, Seasonal = 4

Explanation: Seasonal unemployment - Such as the holiday season comes to an end, those extra jobs that need to be taken up due to an increase of consumptions are left go because they are no longer needed. (This also happens in agricultural industries).

32. D

Explanation: Labor force, everyone currently working, divided over Working Age Population, people who are allowed to work. (Labor Force / Working Age Population)

33. D

34. The lost savers pay due to inflation, a hidden tax that subtracts value from the currency.
“Saved money loses value”

Explanation: people who have money saved in the bank during an inflation experience an “inflation tax” where their money lost value since it was not used and now has less buying power hence it feels as the saved-up money was taxed and money was taken away, but only value was lost. (Time Value of Money, TVM)

35. A

36. Inflation fallacy – belief that inflation is the only thing that makes our purchasing power go down.

FALSE that’s why it’s fallacy.

A fallacy is something many people believe to be true when it’s false.

There are other factors to inflation such as the following real variables:

- Physical capital (Example: There is a chicken flu going around making eggs prices go higher, people assume it’s because of inflation but, it’s because of the chicken flu.)
- Human capital (Example bubonic plague made human capital low so salaries increased to draw in workers that’s the real reason inflation went up from the sellers POV aka the boss)
- Natural resources (Example: gas prices go up its not due to inflation, its due to less oil being found so it’s more scares so prices go up)
- Available production technology

37. Shoe-leather costs are the sacrifices you make in time and effort to minimize the effect of inflation on your finances. So, for example making more trips stop the bank causes

ACADEMIC CENTER FOR EXCELLENCE
LEARNING TEAM

wear and tear on your shoes hence the name. The cost of reducing your money holdings to combat inflation tax on the holders of money.

38. The costs of changing prices. For example, a menu in a restaurant would constantly face **menu costs**. For example, inflation increases prices on goods and services, so this is an example of menu costs. So is TVM.

39. Fisher effect - explains the relationship between inflation and both real and nominal interest rate.

Real interest rate = Nominal interest rate - Expected inflation rate.

40. $Y = C + I + G + NE$

$Y = \text{GDP}$

$C = \text{Consumer spending}$

$I = \text{Public and Private investment}$

$G = \text{Government spending}$

$NE = \text{Exports} - \text{imports}$

41. A

$T - G = \text{public savings}$

42. D

$Y - C - G = \text{private savings}$

43. B

$\text{Public} + \text{private savings} = \text{National savings}$

44. $T - G$

Taxes = revenue

Government spending = expenses

If revenue – expenses is positive, it's a surplus the government has some extra cash on hand.

If the answer is negative, the government is in debt and has no cash on hand.

Resources:

Khan Academy <https://www.khanacademy.org/economics-finance-domain/macroeconomics>

Investopedia: <https://www.investopedia.com/terms/m/macroeconomics.asp>

Disclaimer: We did not include all of the resources conferred to formulate this handout. We encourage students to conduct further research to find additional resources. The format of this list is not commensurate with a standard format.