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BPE_MAC1 Macroeconomics 1 – Spring Semester 2011

Tutorial Session 3 - 11.03.2011, 10:15-11:00 a.m.

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

____ 1. Bond markets allow firms to pursue
a. equity financing.
b. debt financing.
c. limited growth policies.
d. government loans and subsidy programmes.

____ 2. Junk bonds are issues by firms with
a. high degrees of financial security.
b. business connections to the waste treatment and recycling industry.
c. low degrees of financial security.
d. the ability to offer lower interest rates to lenders.

____ 3. The stock market is an institution that facilitates
a. buying and selling of debt financing.
b. the purchase and sale of company shares.
c. the purchase and sale of investment funds.
d. bank borrowing and lending.

____ 4. The major advantage of investment funds is that
a. they allow people with limited funds to diversify.
b. they encourage households to spend their money on current consumption.
c. fund managers are replaced by household administrators.
d. they always use index funds to limit investor risk.

____ 5. If an asset functions as a medium of exchange it
a. holds its value over a long period of time.
b. can be used by people to pay for transactions.
c. can be used by firms for debt financing.
d. can be used by firms for equity financing.

____ 6. The amount of money that would be needed today to produce, using the prevailing interest rate, a given future amount of money is called the
a. present value of the future amount of money.
b. determinate value of the future amount of money.
c. compounded value of the future amount of money.
d. principal.

____ 7. Someone who cares only about expected return and doesn't worry about risk is someone who is
a. risk averse.
b. risk neutral.
c. risk seeking.
d. irrational.

____ 8. Diversification has the advantage of
a. reducing expected return.
b. reducing actual return.
c. reducing risk.
d. reducing the profits of insurance companies.

____ 9. When an agent lacks an incentive to promote the best interests of the principal, and the principal cannot observe the actions of the agent, there is said to be
a. an optimal contract.
b. diversification.
c. moral hazard.
d. idiosyncratic risk.

____ 10. Adverse selection occurs when
a. sellers have relevant information about some aspect of the product's quality that buyers lack (or vice versa).
b. an agent lacks the incentive to act in the best interests of the principal and the principal cannot observe the actions of the agent.
c. a principal and an agent reach an agreement that maximizes the principal's profit while providing an incentive for the agent to participate.
d. a principal obtains information about an agent's actions.

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Answer Section

MULTIPLE CHOICE

1. ANS: B
   debt financing.

   PTS: 1
2. ANS: C
   low degrees of financial security.

   PTS: 1
3. ANS: B
   the purchase and sale of company shares.

   PTS: 1
4. ANS: A
   they allow people with limited funds to diversify.

   PTS: 1
5. ANS: B
   can be used by people to pay for transactions.

   PTS: 1
6. ANS: A
   present value of the future amount of money.

   PTS: 1
7. ANS: B
   risk neutral.

   PTS: 1
8. ANS: C
   reducing risk.

   PTS: 1
9. ANS: C
   moral hazard.

   PTS: 1
10. ANS: A
    sellers have relevant information about some aspect of the product's quality that buyers lack (or vice versa).

    PTS: 1