

ANSWER OUTLINE

ECONOMICS 353

L. Tesfatsion/Fall 2010

EXERCISE 3: Six Questions (8 Pts Total)

DUE: Tuesday, Sept 21, 2:10pm

****IMPORTANT REMINDER: LATE ASSIGNMENTS WILL NOT BE ACCEPTED
– NO EXCEPTIONS****

EXERCISE INSTRUCTIONS:

- (1) Please **fill in your name and student ID number** on Side 1 of your bubble sheet and write **353 Exercise 3** in the top margin of Side 1.
- (2) The first four multiple-choice questions Q1 through Q4 below focus on basic financial topics from Mishkin Chapter 2. The remaining four multiple-choice questions Q5 through Q8 below relate to money, the topic of Mishkin Chapter 3.
- (3) Use a number 2 pencil to **mark your answers** to Q1-Q8 on Side 1 of your bubble sheet. Turn in this bubble sheet at the beginning of class on the due date.
- (4) Each question Q1 through Q8 is worth 1 point.

Q1 (1 point). By definition, instances of DIRECT FINANCE include:

- A. You sell an IBM stock share to your classmate.
- B. You take out a loan at the First National Bank.
- C C. You buy a newly issued share of Google.
- D. You buy a life insurance policy.
- E. All of the above.

Q2 (1 Point). Corporations acquire new funds when their securities are sold in a ____ market but NOT when they are sold in a ____ market.

- A. intermediated financial market; stock market
- B. stock market; bond market
- C. secondary; primary
- D D. primary; secondary

Q3 (1 Point). Which of the following are instances of SECONDARY markets:

- A. The Nasdaq.
- B. Used car dealerships.
- C. U.S. Treasury bond auctions conducted by the Treasury.
- D. Only A and C above.
- E E. Only A and B above.

Q4 (1 Point). Which of the following properties characterize DEBT securities:

- A. Debt holders do not usually participate in the management of the affairs of debt issuers except under conditions of duress.
- B. In case of bankruptcy, debt claims are paid before the claims of common stock holders.
- C. Debt payments are conditional on the profits earned by the debt issuer (borrower), except when the issuer declares bankruptcy.
- D. All of the above.
- E E. Only A and B above.

CASE STUDY ON MONEY (Q5 - Q8)

In the economy of Etania the people use kookooas, a rare type of shell, as money.

Q5 (1 Point). A young woman named Chenoa earns 100 kookooas per month. These 100 kookooas per month are _____. Each month, she hides 20 of her kookooas in a safe place so that she can use them in the future. When she does this, Chenoa is using these 20 kookooas as _____. She spends the remaining 80 kookooas on food and clothing. When she does this, she is using these 80 kookooas as a _____.

- A A. her income; a store of value; medium of exchange
- B. a medium of exchange; a unit of account; store of value
- C. a unit of account; a medium of exchange; store of value
- D. her wealth; a store of value; a medium of exchange

Q6 (1 Point). In addition to using kookooas as money, Chenoa strings some of them into necklaces that she wears as decoration. From this you can conclude that, in Etania, kookooas are _____.

- A. a fiat money.
- B. legal tender.
- C. in short supply.
- D D. a commodity money.

Suppose a change in climate suddenly causes more of the previously rare kookooa shells to wash up onto the shores of Etania. The number of goods produced in Etania remains the same.

Q7 (1 Point). The increased number of kookooas will cause the purchasing power of money in Etania to _____.

- A. increase.
- B. fluctuate more rapidly than before.
- C C. decrease.
- D. either decrease or increase depending on people's bargaining skills.

Q8 (1 Point). Prior to the change in climate, Chenoa spent a total of 10 kookooas to buy 5 pounds of vegetables. After the climate change, Chenoa must spend a total of 30 kookooas to buy 10 pounds of vegetables. The price of vegetables is now _____. This implies that the price of vegetables has _____.

- A. One-third pound of vegetables per kookooa; decreased by approximately 33%
- B B. 3 kookooas per pound; increased by 50%
- C. 30 kookooas per pound; increased by 200%
- D. 300 kookooas per pound; increased by 700%
- E. 2 kookooas per pound; decreased by approximately 33%