

## Homework 9

Due on 31/10/2023, by 23:00

This assignment is optional but **STRONGLY RECOMMENDED**. If you do not submit the answers till the deadline, the score of your final exam will substitute for the score for this assignment. Submit only the correct letter for each task on eLearn under 'Quizzes' within 'COR2100-Economics and Society G7-8-26-49'. Note that the actual text of questions and answers is not supposed to appear on the eLearn quiz. You have unlimited attempts. The system is programmed to credit your last attempt. Be informed that if you submit an attempt and afterwards you re-open the quiz, you must submit your answers **AGAIN**. Otherwise, the system will grade the unfinished attempt with 0 (because it is the last one) and there is **NOTHING** I can do to fix this after the fact. Late homework or homework submitted outside eLearn cannot be accepted as this would violate SMU official policy for fairness and transparency in grading. This assignment is protected by Grade Insurance™: If the assignment's average turns out to be below 75, an equal amount of bonus points will be given to every work, for the average to become 75. Direct any homework questions to your TA.

1. Which of the following is a function of money?
  - A. A means of creating wealth.
  - B. A common reference point to compare different values.
  - C. Both A and B.
  - D. None of the above.
2. Which of the following features of money does bitcoin fail to serve?
  - A. Portability.
  - B. Durability.
  - C. Objective carrier of value.
  - D. Divisibility.
3. Which of the following is NOT a function of the Central Bank?
  - A. It checks commercial banks' activity.
  - B. It profits by providing loans to commercial banks.
  - C. It adjusts the interest rate to stimulate the economy.
  - D. It adjusts the interest rate to control inflation.
4. In periods of high inflation, which of the following population groups is most likely to be negatively affected?
  - A. Homeowners with fixed-rate mortgages.
  - B. Firms operating in oligopolistic markets.
  - C. Firms with fixed long-term contracts with their suppliers.
  - D. Individuals with large savings in cash.
5. What is the role of money when you give \$5 to a kid, and she puts the money in her piggy bank?
  - A. Unit of account.
  - B. Security service.
  - C. Medium of exchange.
  - D. Store of value.
6. What is the role of money when you buy stock of your favorite company?
  - A. Medium of exchange.
  - B. Store of value.
  - C. Both A and B.
  - D. None of the above.

7. Which of the following is likely to create a tendency for the interest rate to increase?
- A. When people decide to spend more.
  - B. When people decide to save less.
  - C. When GDP increases.
  - D. All of the above.
  - E. None of the above.
8. Suppose that the Central Bank increases the money supply and observes that the price level decreases. Which of the following is likely to have happened?
- A. Real GDP has increased by less than the percentage change in  $M_S$ .
  - B. Real GDP has increased by more than the percentage change in  $M_S$ .
  - C. Real GDP has increased equally to the percentage change in  $M_S$ .
  - D. Real GDP has not increased.
9. Why inflation is bad?
- A. Because money loses value.
  - B. Because nominal prices of goods change.
  - C. Because the increase in wages lags behind the increase in prices.
  - D. Because wages increase by less than the prices.
10. Which of the following is LESS likely to be the reason for Open Market Sale by the CB?
- A. To increase the interest rate.
  - B. To reduce demanded credit.
  - C. To raise prices.
  - D. To stabilize the financial system.
11. Which of the following best describes the Phillips relationship?
- A. Inflation and unemployment change in opposite directions in the S-R.
  - B. Inflation and unemployment change in the same direction in the S-R.
  - C. Inflation and unemployment change in the same direction in the L-R.
  - D. Inflation and unemployment change in opposite directions in the L-R.
  - E. Inflation and unemployment are not correlated.
12. Which of the following is most likely to prevent commercial banks from lending money, under the scarce-reserves regime?
- A. Low interest rates.
  - B. A high inflation rate.
  - C. Limited deposits.
  - D. Increased money supply.
13. Which of the following do we mean by “ample reserves regime”?
- A. The Central Bank decides to whom commercial banks will lend their ample reserves.
  - B. The Central Bank decides how much deposits commercial banks accept.
  - C. The public can deposit unlimited funds into commercial banks.
  - D. The Central Bank can lend to commercial banks as much reserves as they need.

14. What prevents commercial banks from loaning an infinite amount of money to the economy when reserves are ample?
- A. The CB must approve their loans.
  - B. Credit risk.
  - C. The demand for loans.
  - D. Both A and B.
  - E. Both A and C.
  - F. Both B and C.
  - G. All of the above.
  - H. None of the above.
15. Economists have calculated that an initial deposit of \$400 to a commercial bank resulted in a total of \$10,000 money creation. What is the reserve ratio?
- A. Around 2%.
  - B. Around 4%.
  - C. Around 6%.
  - D. Around 8%.
  - E. Around 10%.
16. Which of the following could require an increase in money supply in order to prevent the real interest rate from changing?
- A. An increase in GDP.
  - B. An increase in the price level.
  - C. An increase in the price of bonds.
  - D. All of the above.
17. A Singaporean billionaire buys a large amount of newly issued bonds by the Singaporean government. How does this affect Singapore's money market?
- A. Money demand increases.
  - B. Money supply increases.
  - C. Both A and B.
  - D. None of the above.
18. Which of the following should you expect when the interest rate increases?
- A. Speculators will sell bonds.
  - B. Speculators will buy bonds.
  - C. Speculators will neither buy nor sell bonds.
19. Which of the following is most likely to increase M0 money ceteris paribus?
- A. An increase in unemployment.
  - B. A decrease in government spending.
  - C. The increase in money demand.
  - D. The fear of a banking collapse domino.

20. Which of the following best describes the term “inflation tax”?

- A. A tax on the income of individuals paid to the government in order to curb high inflation.
- B. A sales tax firms pay for charging higher prices in periods of high inflation.
- C. The cost that firms face from updating their prices in periods of high inflation.
- D. The transfer of purchasing power from individuals to the government due to inflation caused by increase in money supply.

*Good afternoon! Once, I had written in a blue box like this one: “if you half-ass university, most likely you will half-ass your career later”. A student emailed me the following reply: “Bill Gates, Steve Jobs, Mark Zuckerberg, and many others became successful without having been good students. In fact, they did not even graduate from college. Work experience is what matters, not education.” I answered to him in a later blue box: “Dear [...], there are a few things you are missing: First, Bill Gates, Steve Jobs, Mark Zuckerberg and others are the 0.1% of dropouts who knew what they were doing and became successful on their own. The rest 99.9% of dropouts, would have achieved and earned much more in their life, had they stayed in college. Second, Bill Gates, Steve Jobs, Mark Zuckerberg and others never intended to be hired. They created their own paths, started their own companies, shaped new industries. This involved massive risks and if today we know their names, it is because those risks paid off. However, many other equally competent people took similar risks that unfortunately never paid off and thus, no one ever heard about their sad stories. Third, Gates, Jobs, Zuckerberg and others did not drop out of college because they could not keep up with their studies. They dropped out because their area of interest was new, very fast developing and the knowledge they would have acquired in college was objectively not useful to them in the pursuit of their goals. Fourth, Gates, Jobs, Zuckerberg and the others did not half-ass their studies because they needed a diploma to include in their CV. Instead, they understood that their priorities were different; they dropped out completely and pursued their plan full-time. Successful people either do something right or they do not do it at all. So, there is nothing wrong in graduating with a C. Just don't fool yourself that this makes you a Bill Gates, a Steve Jobs, or even... a Mark Zuckerberg.”*

*Kosmas*