

## Homework 9 – KEY

Average: 86.34 + Opts GI bonus

Due on 5/11/2024, by 23:00

The tasks in this assignment were designed for the average student to solve independently after mastering the material. The answers provided here are written in an instructional manner to help you understand the problem-solving process for each task. If you continue to struggle with a task after reviewing this key, the difficulty may stem not from the task itself, but from having missed or overlooked some parts of the required material.

1. ✓ Which of the following is NOT a function of the Central Bank?
  - A. To affect the interest rate.
  - B. To affect the money supply.
  - 99% C. **To finance government expenditure.** *[CB runs independently from the Government]*
  - D. To regulate the banking system.
  
2. ✓ Which of the following properties of money are cryptocurrencies LESS likely to satisfy?
  - A. Divisibility. *[You can use any fraction of a crypto]*
  - B. Durability. *[Digital assets do not wear out]*
  - C. Hedge against inflation. *[This is not a property of money]*
  - 93% D. **General acceptance.** *[Cryptocurrencies are not generally accepted as means of payment]*
  
3. ✓ Which of the following is likely to increase money demand, ceteris paribus?
  - A. An increase in real GDP. *[If there are more goods and services in the economy, more money is needed to transact those]*
  - B. An increase in cost of living. *[If goods and services become more expensive, more money is needed to transact those]*
  - 94% C. **Both A and B.**
  - D. None of the above.
  
4. ✓ What is the role of money that you use to purchase 100 shares of an S&P500 company?
  - A. Store of value. *[You do not keep the money]*
  - B. Means of creating wealth. *[Not a role of money]*
  - 84% C. **Medium of exchange.** *[Money is exchanged for a security]*
  - D. None of the above.
  
5. ✓ In the last few years, Central Banks around the globe raised interest rates to fight inflation. Who of the following has been negatively affected the most?
  - 88% A. **Speculators who sold their bonds after the increase in interest rates.** *[Interest rates and bond prices are inversely related. Speculators had bought the bonds at high prices and sold them for less]*
  - B. Speculators who sold their bonds before the increase in interest rates. *[Before the increase in the interest rates, bonds hadn't lost their value]*
  - C. Speculators who have bought bonds with the intention to keep them until they expire. *[They have not been affected at all by the increase in interest rates]*

6✓ Why inflation is bad?

A. Because nominal prices of goods change. *[Not necessarily bad]*

89%B. **Because the increase in wages lags behind the increase in prices.** *[This increases inequality against workers]*

C. Because wages increase by less than the prices. *[Not necessarily true]*

D. Because firms' profit margins decrease. *[Not necessarily true, most often the opposite happens]*

7✓ Which of the following is accurate according to the Phillips relationship?

89%A. **Inflation increases firms' profit margin, which incentivizes them to hire more workers.**

B. Inflation decreases firms' profit margin, which incentivizes them to fire workers.

C. Firms that hire more workers, increase their prices to afford the extra cost.

D. Firms that fire workers, increase their prices to increase profitability.

*[An increase in prices raises profitability for firms, thus helping them to expand their activity and hire more workers]*

8✓ Which of the following happens during an Open Market Purchase?

A. The private sector buys securities from the CB, leading to a decrease in M1.

B. The private sector buys securities from the CB, leading to an increase in M1.

C. The private sector sells securities to CB, leading to a decrease in M1.

91%D. **The private sector sells securities to CB, leading to an increase in M1.**

*[From the definition of the Open Market Purchase]*

9. In periods of high inflation, which of the following groups is LESS affected?

A. Pensioners.

50%B. **Freelancers.**

C. Military personnel.

45%D. Members of the Parliament.

*[Pensioners, military personnel and members of the Parliament have stable income, while freelancers can adjust their fees]*

10✓ Which of the following institutions do NOT participate in the process of *money creation*?

87%A. **The Government.**

13%B. The commercial banks. *[They create money by giving out loans]*

C. The Central Bank. *[The CB prints money and determines the money creation with its policies]*