Homework 10 – KEY

Average: 78.38 + 0pt GI bonus

Due on 12/11/2024, 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 participate(s) in the commodity market?
   - 40% A. A FairPrice supermarket. *[It produces retailing services]*
   - B. Development Bank of Singapore. *[It produces banking services]*
   - C. Singapore Management University. *[It produces educational services]*
   - 57% **D. All of the above.**

2. In the $C + I + G$ model, which of the following is LESS likely to increase if the income tax falls?
   - A. Consumption. *[Since disposable income is higher, consumption will increase]*
   - 49% **B. Investment.** *[Investment is autonomous in this model]*
   - C. Real GDP. *[Since consumption is increased, real GDP will also rise]*
   - 46% D. The budget deficit. *[Without change in G, lower taxes will lead to higher deficit]*

3. ✓ Which of the following combinations of policies would be more suitable for a country with low debt, high unemployment and low inflation?
   - 99% **A. Expansionary Fiscal Policy and Expansionary Monetary Policy.**
   - B. Expansionary Fiscal Policy and Contractionary Monetary Policy.
   - C. Contractionary Fiscal Policy and Expansionary Monetary Policy.
   - D. Contractionary Fiscal Policy and Contractionary Monetary Policy.

   [EFP would increase real GDP, thus reducing unemployment, while EMP would prevent interest rate from increasing through link 1, without fearing the increase in inflation]

4. Which of the following is likely to affect the interest rate?
   - A. An increase in t. *[Will decrease Y, decrease Money demand, will put downward pressure to r]*
   - 20% B. An increase in I. *[Will increase Y, increase Money demand, will put upward pressure to r]*
   - C. An increase in $X - M$. *[Will increase Y, increase Money demand, will put upward pressure to r]*
   - 72% **D. All of the above.**

5. ✓ Which of the following is most likely to be the target of Expansionary Monetary Policy?
   - A. To increase the interest rate. *[EMP tends to decrease r]*
   - 97% **B. To increase employment.** *[By increasing real GDP, unemployment will decrease because production will be stimulated and firms will be incentivized to hire more workers]*
   - C. To reduce inflation. *[EMP tends to increase inflation]*
   - D. All of the above.

6. Which of the following is accurate regarding Expansionary Fiscal Policy?

14% A. For the same stimulation of Y, increasing G creates less budget deficit than decreasing t.

53% B. For the same stimulation of Y, increasing G creates more budget deficit than decreasing t.

C. For the same stimulation of Y, increasing G creates the same budget deficit as decreasing t.

24% **D. None of the above.**

[As explained in the practice set, it depends on each model's initial values]

7. Which of the following assets had increased disproportionately to their real value and led the US economy to the Great Depression?

A. Mortgage securities.

94% **B. Stocks.**

C. Bonds.

D. The US dollar.

[Explained in class/external video]

8. Why would a Central Bank increase the money supply immediately after the government has increased G?

99% **A. To stabilize the interest rate.**

B. To incentivize investment.

C. To prevent prices from rising.

D. To provide cheap money to the government.

[After expansionary fiscal policy, Y will increase causing the money demand to increase. By increasing the money supply, the Central Bank can maintain the interest rate at its initial level]

9. Which of the following could be the target of Expansionary Fiscal Policy?

A. To control inflation. *[EFP would put upward pressure to the price level]*

92% **B. To decrease unemployment.** *[EFP will stimulate production and incentivize firms to hire more workers]*

C. Both A and B.

D. None of the above.

10. Greece has around 160% Debt/GDP ratio, while Japan has around 260% Debt/GDP ratio. Yet, Greek government bonds are less preferable than those of Japan. Which of the following could be the reason?

A. Japan issues more bonds than Greece, thus making it easier for investors to buy them from the market. *[Non-sense]*

B. Japan has higher inflation than Greece. *[High inflation would have a negative impact on the attractiveness of a country's bonds]*

96% **C. Japan uses its debt for investment purposes, while Greece mainly for consumption.** *[Taking debt for investment increases the chances that a country will be able to fulfill its debt obligations]*

D. All of the above.