

## Homework 9

Due on 1/4/2025, 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 G13-14-15-16'. 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** or else 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. What is the role of money when you use your debit card to buy a coffee from Starbucks?
  - A. Store of value.
  - B. Unit of account.
  - C. Medium of exchange.
  - D. Money has no role in this transaction.
2. Which of the following happens during an Open Market Purchase?
  - A. Banks buy securities from the CB, leading to a decrease in M1.
  - B. Banks buy securities from the CB, leading to an increase in M1.
  - C. Banks sell their securities to CB, leading to a decrease in M1.
  - D. Banks sell their securities to CB, leading to an increase in M1.
3. Suppose that the Central Bank increases the money supply and observes that the price level decreases. Which of the following is most likely to have happened?
  - A.  $M_s$  has increased by more than the percentage increase in real GDP.
  - B.  $M_s$  has increased by more than the percentage decrease in real GDP.
  - C.  $M_s$  has increased by less than the percentage increase in real GDP.
  - D.  $M_s$  has increased by less than the percentage decrease in real GDP.
  - E. Only  $M_s$  has changed, not the real GDP.
4. Which of the following is most likely to increase M1, ceteris paribus?
  - A. When an individual withdraws cash from an ATM.
  - B. When an individual pays her Spotify subscription using her debit card.
  - C. When CB buys corporate bonds in the open market.
  - D. When government pays pensions to retirees.
5. Which of the following will decrease the demand for money, ceteris paribus?
  - A. An increase in the real interest rate.
  - B. A decrease in the real interest rate.
  - C. An increase in the real GDP.
  - D. A decrease in prices.
  - E. A decrease in money supply.

6. In periods of high inflation, which of the following is most likely to be negatively affected?
- A. Countries that have issued long-term bonds.
  - B. Firms with fixed long-term contracts with their suppliers.
  - C. Individuals with large deposits.
  - D. All of the above will be negatively affected.
7. Which of the following do we mean by “scarce reserves regime”?
- A. That the CB keeps the money supply limited.
  - B. That the CB has set the interest rate to zero.
  - C. That the CB imposes a binding reserve ratio to the commercial banks.
  - D. That the CB forces commercial banks to lend out all their reserves.
8. What prevents commercial banks from loaning out more money than the CB wants under an ample reserves regime?
- A. The CB must approve all loans.
  - B. Banks have limited deposits.
  - C. The demand for loans.
  - D. All of the above.
9. How would a speculator react after an increase in the interest rate?
- A. She will buy bonds if she believes that interest rate will decrease.
  - B. She will buy bonds if she believes that interest rate will increase more.
  - C. She will sell bonds if she believes that interest rate will decrease
10. Which of the following best describes the term “inflation tax”?
- A. The decrease in citizens’ purchasing power when the government finances its spending through having the CB printing money.
  - B. A sales tax introduced by the government that leads to higher prices for goods.
  - C. The cost incurred by firms due to frequent price adjustments during times of high inflation.
  - D. A tax imposed by the government aiming at reducing the impact of rising prices.

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 being 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.”

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