

Introduction to Macroeconomics · M5 · 2013-14

Multiple choice questions for Problem Set 3

- In which case does an economy not have, for sure, lending capacity?
 - Net private saving is positive and the government budget is in deficit.
 - Net private saving is negative and the government budget is in surplus.
 - Net private saving is positive and the government budget is in surplus.
 - None of the above
- Define the government deficit as $G + TR - T$ and let NX denote net exports. Then
 - the government deficit cannot be positive and net exports negative.
 - the government deficit and net exports cannot both be zero.
 - if investment I is zero, then the government deficit is equal to net exports.
 - if private saving S equals investment I , then the government deficit is equal to minus net exports.
- Which sentence is true?
 - The CPI-based inflation rate can never be equal to the GDP deflator inflation rate.
 - An economy can never experience inflation and disinflation at the same time.
 - That an economy has lending capacity means that the government runs a budget surplus ($T > G + TR$).
 - The above three sentences are not true.
- In which case has the economy lending capacity for sure?
 - $S - I > 0$ and $T - G - TR > 0$
 - $S - I > 0$ and $T - G - TR < 0$
 - $S - I < 0$ and $T - G - TR > 0$
 - $S - I < 0$ and $T - G - TR < 0$
- According to the macroeconomic accounting identity, the trade balance NX equals
 - $S + I - (G + TR - T)$.
 - $T - G - TR - S + I$.
 - $T - I - G - TR + S$.
 - None of the above
- Which variable cannot be negative?
 - The trade balance
 - The change in the government budget
 - Private credit to GDP
 - None of the above
- Define the government saving as $T - TR - G$ and the foreign saving as $IM - EX$. If investment I equals private saving TS , then
 - the government saving necessarily equals the foreign saving.
 - the government saving is necessarily greater than the foreign saving.
 - the government saving is necessarily smaller than the foreign saving.
 - the government saving may be equal to the foreign saving.
- If the government runs neither a budget surplus nor a budget deficit, then
 - there must be a trade surplus.
 - there must be a trade deficit.
 - if investment TI differs from private saving S , then the trade balance is necessarily neither in surplus nor in deficit.
 - None of the above
- On the basis of the macroeconomic accounting identities, that an economy has lending capacity means that
 - the government is running a budget surplus.
 - a trade surplus exists.
 - net private saving $S - I$ is negative.
 - the economy is suffering from twin deficits.
- Suppose financial assets A and B differ only in two properties. Which one of the following sentences is more likely to be true?
 - If A is riskier than B , then B 's rate of return should be higher than A 's.
 - If A is less liquid than B , then A should be riskier than B .
 - If A 's rate of return is higher than B 's, then A should be more liquid than B .
 - None of the above

11. Financial assets A and B differ only in two properties. Which of the following sentences is more likely to be true?
- If A is as liquid as B , then B should be more profitable than A .
 - If A is riskier than B , then B 's rate of return should be higher than A 's.
 - If A is more liquid than B , then B should be riskier than A .
 - If A 's rate of return is smaller than B 's, then B should be less liquid than A .
12. What cannot be considered a financial asset?
- A bank deposit
 - A government bond
 - A loan
 - None of the above
13. Financial assets A and B differ only in two properties. Which one of the following sentences is more likely to be true?
- If A is more liquid than B , then B should be more profitable than A .
 - If A is less risky than B , then B 's rate of return should be same as A 's.
 - If A is less liquid than B , then A should be riskier than B .
 - If A 's rate of return is higher than B 's, then A should be more liquid than B .
14. Two financial assets differ in just two properties. It is then to be expected that
- the less profitable asset will be the less liquid.
 - the more liquid asset will be the less risky.
 - the riskier asset will be the less profitable.
 - the more profitable asset will be the riskier.
15. If net private savings $S - I$ equal zero and imports equal exports, then
- there is a budget surplus (public savings are positive).
 - there is a budget deficit (public savings are negative).
 - the economy suffers from a financial need.
 - None of the above
16. Identify the pair of completely unrelated concepts.
- Net exports and foreign saving
 - Financial depth and ratio total banking assets to GDP
 - Securitization and shadow banking
 - None of the above
17. Which sentence is highly unlikely?
- A highly liquid financial asset with a high rate of return will be very risky
 - An almost riskless financial asset with a high rate of return will be highly illiquid
 - A highly liquid financial asset with a high rate of return will be almost riskless
 - None of the above
18. Suppose private saving S and net exports NX are both zero. Then
- investment I equals government saving $T - G - TR$.
 - investment I equals the budget deficit $G + TR - T$.
 - the economy has financial need.
 - there is a trade surplus.
19. Let NPS designate net private saving $S - I$; GB , the government budget $G + TR - T$; and NX the trade balance. According to the macroeconomic identities, which situation cannot arise?
- NPS increases, GB decreases, and NX remains constant.
 - NPS increases, GB decreases, and NX increases.
 - NPS decreases, GB increases, and NX decreases.
 - NPS remains constant, GB increases, and NX decreases.
20. It is to be expected from a financial asset that, other things being equal,
- the higher its liquidity, the smaller its risk.
 - the smaller its rate of return, the higher its liquidity.
 - the higher its risk, the smaller its rate of return.
 - None of the above