Place all answers to your quiz in the space provided at the end of the quiz. No credit will be given for misplaced answers. All answers must be recorded in ink.

1. If a bank is willing to lend you money at a 6% annual interest rate, how much would it be willing to lend you if you promised to pay back $1000 in five years, and another $1000 in 10 years?
   a. $1191   b. $1263   c. $1293   d. $1307

2. If you deposit $1000 in a bank today at an interest rate of 8%, after allowing the interest to compound, how much will you have in your account 20 years from today?
   a. $4661   b. $4932   c. $5722   d. $5893

To answer the next two questions, suppose that you are offered an investment opportunity that would cost you $50,000 today, but pay back $20,000 in 2 years and another $40,000 in 6 years.

3. Assuming an interest rate of 6%, the net present value of this investment opportunity is:
   a. -$4002   b. -$2067   c. $2067   d. $4002

4. The internal rate of return on this project is:
   a. negative.   b. zero.   c. above zero but less than 6%.   d. above 6%

5. In general, it would be wise to undertake an investment if and only if the internal rate of return on the investment is:
   a. negative.   b. positive.   c. above the interest rate.   d. below the interest rate.

6. Loan demand consists of the following two elements:
   a. investment demand and government budget deficits.
   b. investment demand and saving.
   c. government budget deficits and saving.
   d. none of the above.

7. Which of the following would shift the loan demand curve to the right?
   a. a decrease in the interest rate.
   b. an increase in the tax rate on investment income.
   c. a more optimistic outlook regarding earnings growth from investments.
   d. all of the above.
To answer the next 2 questions, consider a two period model in which the consumer has income of $50,000 in period 1 and $40,000 in year 2. The interest rate is 5%.

8. If the above person chooses to "smooth consumption", savings in the first period will be:
   a. $4878  b. $5122  c. $5376  d. $5422

9. If the above person consumed $45,000 in the first period, how much could she consume in the second period (again, assume 5% interest).
   a. $45,000  b. $45,100  c. $45,250  d. $46,000

10. Suppose that a person has 30 years to live. If they receive an unexpected increase in this year's income that they expect is temporary (i.e. the increase will not occur in future years), the person would:
    a. spend all of the extra income
    b. spend most of the extra income
    c. save most of the extra income
    d. save all of the extra income.

**ANSWERS**

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