Name (please print) ______________________________

Assigned seat ____________

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. Suppose there is news that leads people to believe that their incomes will rise sharply in the future. This news would likely cause:
   a. an increase in loan supply.
   b. a decrease in loan supply.
   c. an increase in loan demand.
   d. a decrease in loan demand.

2. The loan supply curve would shift right if:
   a. savings increases.
   b. investment increases.
   c. the budget deficit increases.
   d. all of the above.

3. The equilibrium interest rate would rise and private investment would fall if:
   a. there was an increase in the federal budget deficit.
   b. there was an increase in private saving.
   c. there was a technological innovation that spurred many profitable investment opportunities.
   d. none of the above would cause the interest rate to rise and private investment to fall.

4. Suppose there is a technological innovation that creates many new profitable investment opportunities. The likely result of this discovery would be:
   a. higher interest rates and less private investment.
   b. higher interest rates and more private investment.
   c. lower interest rates and less private investment.
   d. lower interest rates and more private investment.

5. Suppose there is news that leads people to believe that their incomes will rise sharply in the future. This news would like cause:
   a. higher interest rates and less private investment.
   b. higher interest rates and more private investment.
   c. lower interest rates and less private investment.
   d. lower interest rates and more private investment.

6. Suppose that the inflation rate rises by 3% over the next year. If the real interest rate is to stay at its original level:
   a. the nominal interest rate must rise 3%.
   b. the nominal interest rate must fall 3%.
   c. the nominal interest rate must remain the same.
   d. none of the above.

7. Suppose that there is news that leads investors to become pessimistic about future sales growth in the U.S. The likely result of this news would be:
   a. higher interest rates and less private investment.
   b. higher interest rates and more private investment.
   c. lower interest rates and less private investment.
   d. lower interest rates and more private investment.
8. According to the "rule of 72", if real GDP grows at 3% annually,
   a. real GDP would double in 24 years.
   b. real GDP would increase by 72% in 24 years.
   c. real GDP would double in 33 years.
   d. real GDP would increase by 72% in 15 years.

9. According to the commentary titled "Where's the Bang for the Buck?",
   a. the Bush proposal for a dividend tax cut would provide relatively little short term stimulus.
   b. the stimulative effect of the Bush tax cuts could be offset by higher interest rates resulting from larger budget deficits.
   c. some firms currently avoid the "dividend tax" by reinvesting retained earnings. Consequently, the dividend tax cut would do little to stimulate their investment demand.
   d. all of the above.

10. According to the news article on IRAs assigned for this week, President Bush is proposing:
    a. that the traditional IRA be gradually phased out.
    b. that all people be made eligible to contribute to a retirement savings account similar to the existing Roth IRA.
    c. that a new retirement savings account be established in which people could withdraw the money at any age without penalty.
    d. all of the above.

ANSWERS

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