Chapter 12

- Real interest rates are the **interest rates quoted in the market minus the inflation rate.**
- If the real interest rate is 5 percent and the nominal interest rate is 2 percent, this implies an expected inflation rate of **-3 percent.**
- Investment spending tends to be **procyclical.**
- Runs on banks occur when **all depositors attempt to withdraw their fund simultaneously.**
- If the nominal interest rate is 2 percent and the inflation rate is 4 percent, then the real rate of interest is **-2 percent.**
- If firms receive an economic forecast predicting future decreases in the growth of real GDP they are likely to respond by **decreasing their level of investment spending to decrease future production capacity.**
- If firms receive an economic forecast predicting future increases in the growth of real GDP, they are likely to respond by **increasing their level of investment spending to increases future production capacity.**
- The relationship between interest rates and investment spending is graphed as **a downward sloping curve.**
- Financial intermediaries reduce the costs of negotiation by **pooling funds.**
- If table 12.2 represents all the investments available to the economy, the nominal interest rate is 10 percent and there is no inflation what wills the level of investment in the economy? $0
- If Table 12.2 represents all the investments available to the economy, the nominal interest rate is 2.5 percent and there is no inflation, what will be the level of investment in the economy. $900
- The maximum amount a person is willing to pay today to receive a payment in the future is known as **present value.**
- Suppose you have $400 to invest at a nominal interest rate of 7 percent, and the investments term to maturity is 1 year. If the inflation rate is 2 percent then the real return on your investment is approximately **$20.**
- Suppose that a firm can invest $100 today in a project and receive $105 a year from today. There is no inflation and the annual interest

rate in the economy is 6%. The firm should **not invest in the project because the opportunity cost is greater than the return on the investment.**

- Suppose you have $400 to invest at a nominal interest rate of 5 percent. If the inflation rate is 2 percent, then the real return on your investment is approximately $12.
- The term investment refers, in general, to **any action today that has costs today but provides expected benefits in the future.**
- Suppose that a firm can invest $100 today in a project and receives $105 a year from today. There is no inflation and the annual interest rate in the economy is 4% the firm should **invest in the project because the opportunity cost is less than the return on the investment.**
- IF a project costs $800 today and pays a return of $864 next year what is the highest interest rate at which the project should be undertaken **8 percent.**
- Accelerator theory refers to the theory of **investment that emphasizes that current investment spending depends positively on the expected future growth of GDP.**
- The present value of a given payment in the future **increases** when the interest rates fall.
- If the real interest rate if 4 percent and the nominal interest rate is 7 percent, this implies an expected inflation rate of 3 percent.
- The security provided by the federal government on money in banks is called **deposit insurance.**
- If a project costs $3500 today and pays a return of $4200 next year, what is the highest interest rate at which the project should be undertaken? 20 percent.
- Financial intermediaries are institutions that facilitate the movement of funds from savers to investors because they **provide liquidity.**
- If the real interest rate is 4 percent and the inflation rate is 3 percent then the nominal interest rate is 7 percent.
- The real nominal principle can be stated as **what matters to people is the purchasing power of money or income.**

Chapter 13

- Suppose that while vacationing in Switzerland you won 9375 Swiss francs which is the equivalent of 8000 when you return to the United States you deposit the 8000 into your checking account. If the required reserve ratio is 15 percent this would increase your banks **liabilities by 8000.**
- Deposits are examples of a banks **liability.**
- Given the following information about AAA banks: Deposits 50000 Loans 25000, required reserves 15000, excess reserves 10000 the reserve ratio is **30 percent.**
- Which of the following can be used as money **all of the above.**
- Money that has no intrinsic value and is created by a government decree is called **fiat money.**
- Which of the following serves as the central bank for the United **States the Federal Reserve System.**
- Given the following information about Gotham Bank: bank deposits 50000, loans 34000, reserves 12000, and reserve requirements 20 percent. Gotham bank is holding **2000** in excess reserves.
- Traveler's checks are included in **both M1 and M2.**
- When money is used to express the value of goods and services it is functioning as a **unit of account.**
- Suppose Diego deposits 4000 in his bank if the reserve ratio is 10 percent this will lead to a max increase of **40000** in checking account balances throughout all banks.
- The supply of money in the economy is determined primarily by **the actions of the Federal Reserve and the banking system.**
- If the banking system has a required reserve ratio of 40 percent the money multiplier is **2.5**
- A bank's reserves **all of the above.**
- The money multiplier will be smaller when **bank customers prefer to hold bigger amounts of their money as cash (instead of in their checking accounts)**
- Loans are examples of a bank's **assets**
- The fraction of deposits are required by law to hold and not lend out are called its **required reserves.**
- Suppose a bank has $8 million in deposits and a reserve ratio of 20 percent. Its required reserves are 1,600,000\