MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) If wealth increases, the demand for stocks _____ and that of long-term bonds _____.

A) increases; decreases
B) decreases; decreases
C) decreases; increases
D) increases; increases

2) When people begin to expect a run up in large stock market, the demand curve for bonds shifts to the _____ and the interest rate _____.

A) left; falls
B) right; rises
C) left; rises
D) right; falls

3) As the price of a bond falls and the expected return _____, bonds become _____ attractive to investors.

A) falls; less
B) rises; less
C) rises; more
D) falls; more

4) Higher expected interest rates in the future ____ the demand for long-term bonds today and shift the demand curve to the _____.

A) decrease; left
B) increase; left
C) increase; right
D) decrease; right

5) When stock prices become less volatile, the demand curve for bonds shifts to the _____ and the interest rate _____.

A) left; rises
B) right; rises
C) right; falls
D) left; falls

6) An increase in the liquidity of bonds results in a _____ in demand for bonds and the demand curve shifts to the _____.

A) fall; left
B) rise; left
C) rise; right
D) fall; right

7) A decrease in the expected rate of inflation will _____ the expected return on bonds relative to that on _____ assets.

A) reduce; real
B) reduce; financial
C) raise; financial
D) raise; real

8) Factors that increase the demand for bonds include

A) an increase in the inflation rate.
B) an decrease in the liquidity of common stocks.
C) a decrease in the volatility of stock prices.
D) all of the above.

9) You would be less willing to purchase U.S. Treasury bonds, other things equal, if

A) gold becomes more liquid.
B) you expect interest rates to fall.
C) you expect bond prices to rise.
D) either A or B of the above occurs.

10) In a recession when income and wealth are falling, the demand for bonds _____ and the demand curve shifts to the _____.

A) rises; left
B) falls; left
C) rises; right
D) falls; right

11) An increase in expected inflation causes the supply of bonds to _____ and the supply curve to shift to the _____.

A) increase; left
B) increase; right
C) decrease; left
D) decrease; right

12) Higher government deficits _____ the supply of bonds and shift the supply curve to the _____.

A) increase; left
B) increase; right
C) decrease; left
D) decrease; right

13) When the inflation rate is expected to increase, the real cost of borrowing declines at any given interest rate; the supply of bonds _____ and the supply curve shifts to the _____.

A) decreases; right B) decreases; left C) increases; left D) increases; right

14) When the interest rate changes,

A) it is because either the demand or the supply curve has shifted.

B) the demand curve for bonds shifts to the right.

C) the supply curve for bonds shifts to the right.

D) the demand curve for bonds shifts to the left.

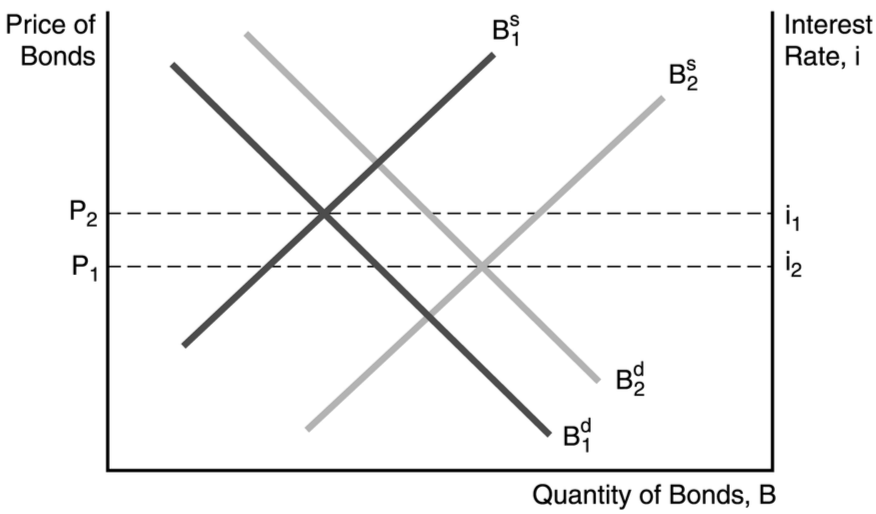

Figure 5–2

15) In Figure 5–2, one possible explanation for the increase in the interest rate from i_1 to i_2 is

A) a decrease in economic growth.

B) an increase in the expected inflation rate.

C) an increase in economic growth.

D) a decrease in the expected inflation rate.

16) In Keynes's liquidity preference framework,

A) an excess demand of bonds implies an excess demand for money.

B) an excess supply of bonds implies an excess demand for money.

C) the demand for bonds must equal the supply of money.

D) the demand for money must equal the supply of bonds.

17) An excess demand for bonds implies

A) a shortage of currency.

B) equilibrium in the money market.

C) excess supply of money.

D) excess demand for money.

E) a surplus of bonds.

18) A lower level of income causes the demand for money to _____ and the interest rate to _____.

A) decrease; decrease B) decrease; increase C) increase; decrease D) increase; increase

19) A decline in the price level causes the demand for money to _____ and the interest rate to _____.

A) decrease; decrease B) increase; decrease C) decrease; increase D) increase; increase

20) Holding everything else equal, an increase in the money supply causes

A) interest rates to increase initially.

B) bond prices to decline initially.

C) interest rates to decline initially.

D) both A and C of the above.

E) both B and C of the above.

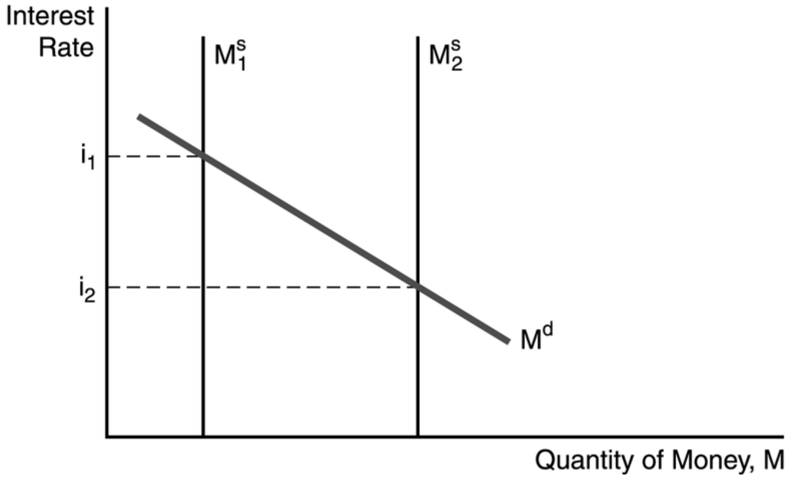

Figure 5-4

21) In Figure 5-4, the factor responsible for the decline in the interest rate is

A) a decline the price level.

B) a decline in the expected inflation rate.

C) a decline in income.

D) an increase in the money supply.

Answer Key
Testname: CHAPTER 5 PQ.TST

1) D
2) C
3) C
4) A
5) A
6) C
7) D
8) B
9) A
10) B
11) B
12) B
13) D
14) A
15) C
16) B
17) C
18) A
19) A
20) C
21) D