1. With the exception of infrastructure, physical capital is created by
   a. education.         b. total factor productivity.
   c. private investment spending. d. increases in the size of the labor force.

2. In a simplified economy with no government and no interaction with other countries, all investment spending must come from
   a. taxes.              b. imports.
   c. exports.           d. domestic savings.

3. The presence of a government budget surplus means that
   a. the government has provided savings to the financial system.
   b. the household sector has not provided any savings to the financial system.
   c. this is a closed economy.          d. this is an open economy.

4. In an economy with a government but no interaction with other countries,
   a. consumption spending equals savings.
   b. consumption spending equals investment spending.
   c. investment spending equals national savings.
   d. the amount of the budget surplus will be equal to the amount of tax revenue collected.

5. The two components of national savings in an economy without interactions with other countries are
   a. private savings and the budget balance.
   b. consumption spending and investment spending.
   c. taxes and the budget balance.
   d. private savings and taxes.

6. Given a fixed amount of private savings in an economy with no interactions with other countries, the presence of a
government budget deficit means that
   a. consumption spending will be more than it would be otherwise.
   b. taxes will be higher than they would be otherwise.
   c. interest rates will be lower than they would be otherwise.
   d. investment spending will be less than it would be otherwise.

7. Which of the following statements is true?
   a. From a national perspective, it makes no difference whether investment is financed by domestic savings or by foreign savings.
   b. As it participates in the global economy, the United States generates a negative capital inflow.
   c. A dollar of investment spending financed by capital inflow comes at a higher national cost than does a dollar of investment spending financed by national savings.
   d. The U.S. participation in the global economy has made it more difficult for U.S. firms to undertake investment spending.

8. Which of the following holds true in an economy that interacts with other countries?
   b. Capital inflow equals desired investment spending.
   c. Investment spending equals national saving plus capital inflow.
   d. Investment spending equals consumption spending minus taxes.

9. Financial markets serve to match
   a. savers with borrowers.          b. exporters with importers.
   c. producers with consumers.      d. workers with employers.

10. A business will want a loan when
    a. the rate of return on its project is less than the rate at which profits are taxed.
    b. the rate of return on its project is at least as great as the interest rate.
    c. it can be financed by an inflow of foreign funds.
    d. the rate of return on its project is less than the interest rate.
11. From the point of view of savers, the interest rate represents
a. the cost of researching different investment opportunities.
b. the cost of monitoring investments to make sure they are secure.
c. the reward for accepting a permanently lower standard of living.
d. the reward for postponing consumption.

12. What is the result of having loanable funds allocated by the market mechanism?
   a. Those people with the highest levels of wealth will always be able to borrow money; members of the middle class will not.
   b. Those investment projects with the highest rates of return will be financed; those with the lowest rates of return will not.
   c. Those investment projects with the greatest short-term benefits will be financed; those with long-term benefits will not.
   d. The largest firms will be able to borrow money; small enterprises will not.

13. When government becomes a borrower in the loanable funds market,
   a. the demand for funds increases, and the interest rate decreases.
   b. the demand for funds increases, and the interest rate increases.
   c. the demand for funds decreases, and the interest rate decreases.
   d. the demand for funds decreases, and the interest rate increases.

14. Crowding out is
   a. the negative effects of taxation on investment decisions.
   b. the positive effects of taxation on investment decisions.
   c. the negative effect of government budget deficits on private investment.
   d. the positive effect of government budget deficits on private investment.

15. According to the Fisher effect
   a. the expected real interest rate is unaffected by a change in expected future inflation.
   b. the expected nominal interest rate is unaffected by a change in expected future inflation.
   c. expected future inflation is unaffected by a change in the real interest rate.
   d. expected future inflation is unaffected by a change in the nominal interest rate.

16. If you take out a bank loan to buy a car
   a. the loan is a liability both for you and for the bank.
   b. the loan is an asset both for you and for the bank.
   c. the loan is a liability for the bank and an asset for you.
   d. the loan is an asset for the bank and a liability for you.

17. By allowing for diversification, financial markets
   a. reduce transaction costs.  b. reduce risk.
   c. increase liquidity.  d. create inefficiency.

18. By investing in a mutual fund, you are
   a. owning a share of a stock portfolio.
   b. avoiding the risks of dealing with financial intermediaries.
   c. endorsing the efficient markets hypothesis.
   d. endorsing the random walk theory.

19. Which of the following statements is NOT true?
   a. Today's stock prices will change according to changes in investors' expectations about future stock prices.
   b. The price of a particular stock is determined by the supply of and demand for its shares.
   c. Stock prices are not affected by changes in bond prices.
   d. Many companies do not pay dividends to their stock holders.

20. Those who believe that movements in asset prices are unpredictable believe
   a. that markets are irrational.
   b. the efficient markets hypothesis.
   c. that asset bubbles can never occur.
   d. that fundamentals do not explain the values of stocks.