

Homework #7

1. The rule of 70 states that:
 - A. investments, on average, will double every 70 years.
 - B. investments will double every $70/x$ years, where x is the rate of return on the investment.
 - C. only 70 percent of investments will have a positive net present value.
 - D. 70 years is the period of time that necessary for an investment to reach its maximum maturity.
2. If you had an investment that was earning a 5 percent rate of return, the rule of 70 would predict that your investment would double in:
 - A. 70 years.
 - B. 35 years.
 - C. 14 years.
 - D. 7 years.
 - E. 5 years.
3. The 5 rules of investing discussed in class do not include:
 - A. put all your eggs in one basket and guard that basket.
 - B. start now and invest for the long run.
 - C. make investments a habit.
 - D. dodge Uncle Sam when you can.
4. Empirical evidence regarding investments indicate that:
 - A. The range in average returns on common stocks tends to decline with the period of time you hold the asset.
 - B. expected return increases with the level of risk.
 - C. both (A) and (B).
 - D. neither (A) or (B).
5. An example of statistical prejudice is:
 - A. an employer not being willing to provide a woman some costly training because the women they have hired in the past have been more likely to leave the job due to childbearing responsibilities.
 - B. an insurance company charging me more for car insurance than for my wife because men are more likely, on average, to have an accident.
 - C. getting into an elevator with a little old lady in it rather than the elevator next to it because there is a Biker in it.
 - D. All of the above.
6. Sound investment principles indicate that, as you age, your portfolio:
 - A. should include a higher percentage of stocks.
 - B. should include a higher percentage of bonds.
 - C. should not change from the optimal and time-invariant mix of stocks and bonds that depends on your degree of risk-aversion.
 - D. none of the above.
7. All of the below are investments except your:
 - A. 401k.
 - B. house.
 - C. kids.
 - D. education
 - E. none of the above (all are investments).

8. Index funds:
- A. are a good investment choice for persons who do not have a lot of knowledge regarding the market.
 - B. are a good investment choice for persons who do not desire to spend a lot of time following the market.
 - C. outperform 90 percent of the managed funds in the market.
 - D. are no-load funds that contain a market basket of stocks that index the total market, the S&P 500, or particular market segments.
 - E. all of the above.
9. If you make an investment of \$10,000 in an investment that has historically paid out a 10 percent rate of return, then the number of years before your investment will be expected to double is:
- A. 1 year
 - B. 7 years
 - C. 10 years
 - D. 10,000 years
 - E. insufficient information to answer the question.
10. Suppose you pay \$1000 a month for your house over 30 years at a monthly interest rate of 1 percent. What is the approximate present value of that stream of payments:
- A. \$1000
 - B. \$10,000
 - C. \$100,000
 - D. 1,000,000.
 - E. insufficient information to answer the question.
11. For country A, an export is a good produced in:
- A. country B and purchased by residents of country B.
 - B. country B and purchased by residents of a country A.
 - C. country A purchased by residents of a country B.
 - D. country A and purchased by residents of a country A.
12. For country A, an import is a good produced in:
- A. country B and purchased by residents of country B.
 - B. country B and purchased by residents of a country A.
 - C. country A purchased by residents of a country B.
 - D. country A and purchased by residents of a country A.
13. In a market where there are two countries that start from a no trade equilibrium, the introduction of trade will cause:
- A. an increase in production in the exporting country.
 - B. an increase in production in the importing country.
 - C. an increase in consumption in the exporting country.
 - D. both (A) and (C).
 - E. both (B) and (C).
14. An agreement by one country to limit the volume of exports to another country is best known as a(n):
- A. voluntary export restraint.
 - B. tariff.
 - C. quota.
 - D. market restriction.

15. In a market where there are two countries that start from a no trade equilibrium, the introduction of trade will cause:
- A. an increase in the price of the traded good in the exporting country.
 - B. a decrease in the price of the traded good in the importing country.
 - C. both (A) and (B).
 - D. neither (A) or (B).
16. Arbitrage results when:
- A. governments recognize that there is an opportunity to raise tax revenues through tariffs.
 - B. producers in an exporting country recognize that there is an opportunity to raise profits in the home country by dumping products abroad at a low price.
 - C. producers in an importing country recognize that there is an opportunity to raise consumer welfare in the home country by subsidizing imports.
 - D. price differences between countries leads to a profit-making opportunity through trade by buying in the low-cost country and selling in the high-cost country.
17. Evaluation of the net national gains:
- A. requires a value judgement regarding how to evaluate the impacted persons' welfare from trade.
 - B. commonly uses the rule of one dollar equals one vote where the value of any dollar of gain or loss is treated equally regardless of who experiences it.
 - C. both (A) and (B).
 - D. neither (A) or (B).
18. In a market where there are two countries that start from a no trade equilibrium, the introduction of trade will cause:
- A. consumers to be better off in the importing country.
 - B. consumers to be better off in the exporting country.
 - C. producers to be better off in the importing country.
 - D. both (A) and (B).
 - E. both (B) and (C).
19. In a market where there are two countries that start from a no trade equilibrium, the introduction of trade will cause:
- A. an increase in consumer surplus net of the reduction in producer surplus in the importing country.
 - B. an increase in producer surplus net of the decline in consumer surplus in the exporting country.
 - C. an increase in welfare for both producers and consumers in the importing country.
 - D. both (A) and (B).
 - E. both (B) and (C).
20. An example of a tariff is:
- A. Japanese automobile manufacturers agreeing to limit exports to the United States.
 - B. A decision by the United States to limit Korean television imports to 100,000 per year.
 - C. France charging an additional ten percent tax on imports of Mexican clothing.
 - D. All of the above.