

Problem Set 7: Business Cycles, Economic Growth, and Financial Markets

1. Which of the following is part of the business cycle?
 - a. Peak
 - b. Peek
 - c. Peep
 - d. Beep

2. Which of the following is part of the business cycle?
 - a. Dent
 - b. Valley
 - c. Hole
 - d. Trough

3. Which of the following is part of the business cycle?
 - a. Recess
 - b. Regression
 - c. Recession
 - d. Repression

Questions 4 to 8 refer to the following scenario:

Consider the following data for a closed economy and calculate public savings, private savings, and consumption.

$$Y = 11$$

$$I = 2$$

$$G = 1$$

$$TR = 1$$

$$T = 3$$

4. Given the above data, which of the following statements is true about the government budget?
 - a. The government budget deficit is 1
 - b. The government budget deficit is 3
 - c. The government budget surplus is 3
 - d. The government budget surplus is 1

5. Given the above data, which of the following statements is true about consumption?
 - a. Consumption is 10
 - b. Consumption is 9
 - c. Consumption is 8
 - d. Consumption cannot be determined

6. Given the above data, which of the following statements is true about public savings?
 - a. Public savings is 3
 - b. Public savings is 2
 - c. Public savings is 1
 - d. Public savings cannot be determined.

7. Given the above data, which of the following statements about private savings is true?
 - a. Private savings is 1
 - b. Private savings is -1
 - c. Private savings is -10
 - d. Private savings cannot be determined.

8. Now assume that government spending increases from 1 to 2. If the values for Y and C remain unchanged, what happens?
 - a. Investment increases by 1
 - b. Investment decreases by 1
 - c. Tax Revenue increases
 - d. Nothing happens.

9. How will an increase in taxes on business profits impact the market for loanable funds?
 - a. Demand increases.
 - b. Demand decreases.
 - c. Supply increases.
 - d. Supply decreases.

10. How will an increase in taxes on business profits impact the market for loanable funds?
 - a. The interest rate remains unchanged.
 - b. The interest rate increases.
 - c. The interest rate decreases.
 - d. The interest rate is unrelated to the market for loanable funds.

11. How does a government budget deficit impact the market for loanable funds?
 - a. Public savings is negative and the supply of loanable funds decreases.
 - b. Public savings is positive and the supply of loanable funds decreases.
 - c. Public savings is negative and the supply of loanable funds increases.
 - d. Public savings is positive and the supply of loanable funds increases.