In-Class Quiz #1

- Everything else held constant, a decline in interest rates will cause spending on housing to
  A) fall.
  B) remain unchanged.
  C) either rise, fall, or remain the same.
  D) rise.

- The bond markets are important because they are
  A) easily the most widely followed financial markets in the United States.
  B) the markets where foreign exchange rates are determined.
  C) the markets where interest rates are determined.
  D) the markets where all borrowers get their funds.

- Nobel Prize winner Milton Friedman once said “Inflation is always and everywhere a monetary phenomenon.” Please comment on this statement. In particular, would you expect inflation as a result of high money supply growth or a low money supply growth? Explain in detail, why money supply would have an effect on inflation.