Econ 301 Intermediate Microeconomics
Chapter 13 Quiz

1. A periodic payment tied to an amount of assets borrowed or lent is called...
   A. principal  B. interest  C. interest rate  D. compound interest
   [Choice A]

2. The amount of assets on which interest payments are made is called...
   A. principal  B. interest  C. interest rate  D. compound interest
   [Choice B]

3. A calculation of interest based on the sum of the original principal and interest paid over past periods is called...
   A. principal  B. interest  C. interest rate  D. compound interest
   [Choice D]

4. Suppose Burrito's Limited L.L.C. issues a bond that pays $100 after five years and $10 after each year for a price of $90. The face value of the bond is
   A. $100  B. $10  C. $90
   [Choice C]

5. Consider the previous question. The coupon payment of the bond is
   A. $100  B. $10  C. $90
   [Choice B]

6. Once again consider the burrito example above. The yield of the bond is
   A. The market interest rate.
   B. The interest rate that makes the bond’s present discounted value equal to its current market price.
   C. 10%.
   D. 11%
   [Choice B]

7. When the market interest rate increases, all else equal, the present discounted value of a bond
   A. increases  B. remains the same  C. decreases  D. indeterminate
   [Choice C]

8. The real interest rate is (approximately)
   A. The nominal interest rate plus the inflation rate
   B. the nominal interest rate plus the average bond yield
   C. the nominal interest rate minus the average bond yield
   D. The nominal interest rate minus the inflation rate
   [Choice D]

9. Suppose that you can have $100 with certainty, or you can choose to flip a coin. If you win the flip, you get $200 but if you lose you get $0. (The coin is fair — 50/50 chance of heads or tails). The expected value of the coin flip is $0 \times .5 + 200 \times .5 = $100. Suppose that in order to get you to choose the coin flip instead of a free $100, I have to pay you $20. Suppose also that you would be indifferent between the coin flip and $150. Then the risk premium is
   A. $100  B. $200  C. $150  D. $20
   [Choice D]

10. Using the scenario above, the certainty equivalent is
   A. $100  B. $200  C. $150  D. $20
   [Choice C]