

Economics 231 Principles of Macroeconomics
Section 5
Spring 2010
Homework 3

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March 2010

Due date: Tuesday, March 9, 2010

10 points

1. [1 point] Chapter 6, Questions 8 and 9 (combined) “Facts and Tools” (p. 107): Each of these questions has three parts. You must use the rule of 70 to answer all three parts correctly to get 1/2 point for each question.
2. [1 point] Chapter 7, Question 2 “Facts and Tools” (p. 137): When will people work harder to invent new ideas: When they can sell them to a market of 10,000 people or when they can sell them to a market of 1 billion? Does your answer tell us anything about whether it is good or bad from the U.S. point of view for China and India to become rich countries?
3. [1 point] Follow up question: Some areas of China have some serious pollution problems. 19th century England was dirty with coal soot from the many factories. England cleaned things up as they became wealthier. Discuss the implications of this for entrepreneurs working on “green” technologies today.
4. [1/2 point] Bond prices and interest rates move in _____ directions.
5. [1/2 point] The *nominal* rate of return on money (cash) is _____ percent.
6. [1 point] All other things being equal (in particular, assume that the investment opportunities for business are the same in either case), which country would you expect to have a higher national saving rate: a country that has a large population of productive mid-career workers or a country that with a large and growing fraction of retired people? Explain why with a graph.
7. [2 points: 1/2 point for each part—more than 3 wrong gets no credit] Chapter 8, Question 6 “Facts and Tools” (page 168) (bank accounts, bonds, or stocks)
8. [2 points: 1/2 point for each part—more than 3 wrong gets no credit] Chapter 8, question 9 “Facts and Tools” (page 168) (real interest rates)
9. [1 point] Explain why the efficient markets hypothesis means that it is hard to get rich quick in the stock market.