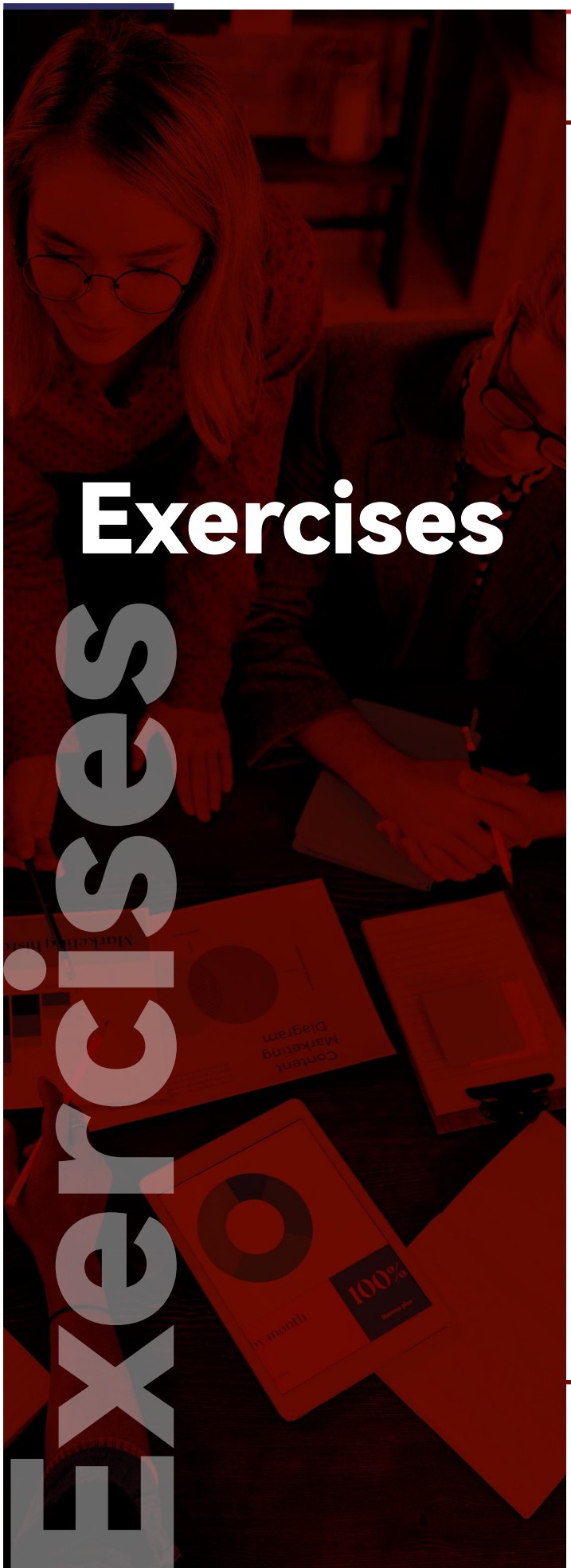

Exercises

Structure of the Exercises:

- The correct answer and explanations are provided at the end of this part
- All exercises are sectioned into different topics (Micro, Macro, Financial Markets, Accounting, and Valuation)

Microeconomics

1. Which of the following is a characteristics of monopolistic competition?

- A. Price > marginal Cost
- B. Efficiency
- C. Demand = Marginal Revenue
- D. Homogeneous or similar products

2. If the quantity demand of milk increases 30% while the price decrease 5%, this means the price elasticity of demand is?

- A.unit elastic
- B.elastic demand
- C.perfectly elastic
- D.Inelastic demand

3. The area below a demand curve, above the equilibrium price, and left of equilibrium quantity is the?

- A.deadweight loss
- B.consumer surplus
- C.producer surplus
- D.price ceiling

Macroeconomics

4. If nominal GDP equals $30,000 and the GDP deflator equals 150, then real GDP equals?

- A.$200.
- B.$20,000.
- C.$30,000.
- D.$32,000.

5. In the equation GDP = C + I + G + NX, NX represents?

- A.exports.
- B.imports.
- C.imports minus exports.
- D.exports minus imports.

6. Which of the following is not an argument for trade protectionism?

- A.To protect domestic industry.
- B.To promote employment rate.
- C.To reduce inflation.
- D.To promote tariff revenue.

Financial Markets

7. The primary goal of a financial market is to ___ risk, and __liquidity?

- A.increase, increase.
- B.increase, decrease.
- C.decrease, increase.
- D.decrease, decrease.

8. Which of the following are trade in the exchange?

- A.bonds.
- B.stocks.
- C.futures.
- D.all of the above.

9. You purchase a share of GM for $90. One year later, after receiving a dividend of $5, you sell the stock for $100. What was your holding-period return?

- A.16.7%
- B.17.6%
- C.18.2%
- D.18.8%

Accounting

10. Buying computer to use in the business is an example of

- A.a financing activity.
- B.an operating activity.
- C.an investing activity.
- D.a delivering activity.

11. The revenue and net income of a company are displayed in which statement?

- A.balance sheet.
- B.income statement.
- C.cash flow statement.
- D.none of the above.

12. The kind of debts which need to be repaid in a short-term call?

- A.fixed liabilities.
- B.current liabilities.
- C.current assets.
- D.Intangible assets.

Valuation

13. If the intrinsic value of a stock is greater than its market value, which of the following is a reasonable conclusion?

- A.The stock has low risks.
- B.The stock will offer higher dividend.
- C.The market is overestimating the stock.
- D.The market is underestimating the stock.

14. What is the objective of relative valuation?

- A.To determine intrinsic value.
- B.To predict future market trends.
- C.To analyze industry growth.
- D.To value assets based on marketing pricing.

15. Which of the following is most likely used in a present value model?

- A.future cash flows.
- B.historical costs.
- C.market share.
- D.production capacity.

Answers and Explanations

1: A

Explanation: Only Perfect competition achieve productive efficiency and allocative efficiency, the demand equal to the marginal revenue, and it sells homogenous or similar products. Monopolistic competition market has pricing power can achieve the price higher than the marginal cost.

2: B

Explanation: The price elasticity of demand formula is %change in quantity/%change in price. Since the absolute value of the price elasticity of demand higher than 1, it is elastic demand.

3: B

Explanation: Consumer surplus is the difference between the maximum price a buyer willing to pay and the actual price purchased. This is shown graphically below the demand curve, above price, and left of quantity.

4: B

Explanation: Real GDP = (Nominal GDP / GDP deflator) *100

5: D

Explanation: NX stand for net exports, it equals to exports minus imports

6: C

Explanation: Trade protectionism will raise price level, it cannot reduce inflation.

7: C

Explanation: The financial market efficiently connects borrowers and lenders. The institution provides accurate information about risks to help them evaluate potential investments. Lenders can offer loans to borrowers, thereby increasing liquidity.

8: D

Explanation: All this instruments – bonds, stocks, and futures are traded on various exchanges.

9: A

Explanation: Your total return is $105 ($100+$5), and your initial input is $90. The percentage change between your total return and your initial input is your holding period return (105/90-1=0.167)

10: C

Explanation: When a business buys a computer, it's considered an investment in the long-term assets of the business. The purchase of property, equipment, or other long-term assets falls under investing activities in a company's cash flow statement.

11: B

Explanation: The income statement displays all the revenues and net incomes of a company.

12: B

Explanation: Current liabilities refer to debts or financial obligations that a company needs to settle within a short period. These include accounts payable, short-term loans, accrued expenses, and other short-term debts.

13: D

Explanation: When the intrinsic value of a stock is greater than its market value, it means the current stock price is lower than its true value. The stock is being underestimated.

14: D

Explanation: Relative valuation aims to value assets based on how similar assets are currently priced in the market using multiples, averages, ratios, and benchmarks. The stock is being underestimated.

15: A

Explanation: A present value model discounts future cash flows to their present value to assess the worth of an investment or financial asset.