Session 10: Post Class tests

1. When inflation is measured, there are two issues that you have to deal with. The first is that there can be mistakes in how the basket of goods/services is specified and how prices are measured. The other is that there can bias in the process. Which of the following is more consistent with bias?
    a. Measured inflation is different from actual inflation.
    b. Measured inflation is equal to actual inflation
    c. Measured inflation is sometimes lower than actual inflation.
    d. Measured inflation is almost always lower than actual inflation.
    e. None of the above
2. Your mutual fund investment generated a return of 15% over the last year. If inflation during the year was 5%, what was your real return on the fund?
    a. 9.52%
    b. 10.00%
    c. 15.00%
    d. 20.75%
    e. None of the above
3. Assume that you invest $100 in stocks and that your time horizon is 20 years. If your expected annual return on stocks is 8% and the expected inflation rate, annually, is 2%, how much money would you expect to have, in real terms, at the end of 20 years?
    a. $314
    b. $321
    c. $466
    d. $672
    e. None of the above
4. You are looking at investing $1 million in in a friend's business, and you expect to receive $2.5 million back, ten years from now. If the annual inflation rate is expected to be 3% for the next ten years, what is the expected real return on this investment.
    a. 6.40%
    b. 6.59%
    c. 9.59%
    d. 12.59%
    e. None of the above
5. You have just bought your first house for $200,000. Your aging uncle tells you that he bought his house cheap, paying only $50,000 for a similar house 30 years ago. If the average annual inflation rate over the last 30 years was 4%, how much more or less did you spend (in percent terms) in buying your house today?
    a. 5.67% less
    b. 23.33% more
    c. 81.81% more
    d. 300.00% more
    e. None of the above