

## Answer Outline

ECONOMICS 353

L. Tesfatsion/Fall 05

EXERCISE 2: Six Questions (8 Points Total) DUE: Tuesday, Sept 6, 2005, 2:10pm

**\*\*IMPORTANT REMINDER: LATE ASSIGNMENTS WILL NOT BE ACCEPTED  
– NO EXCEPTIONS\*\***

### EXERCISE INSTRUCTIONS:

- (1) Please **fill in your name and student ID number** on Side 1 of your bubble sheet and write **353 Exercise 2** in the top margin of Side 1.
- (2) Use a number 2 pencil to **mark your answers** on Side 1 of the bubble sheet to the first five questions Q1 through Q5, below, which are in multiple choice format.
- (3) The sixth question Q6 is a Web Exercise that asks you to prepare and analyze data in table and graphical form using an Excel spreadsheet and print out the graphical data. Please put your **name and student ID number** at the top of your print-out sheet for Q6 along with **353 Exercise 2** and **separately** hand in this print-out sheet for Q6 in addition to your answer bubble sheet for questions Q1 through Q5.
- (4) Each question Q1 through Q5 is worth 1 point, and Q6 is worth 3 points.

**Q1 (1 point).** By definition, FINANCIAL assets are

- A. claims against securities held by financial institutions.
- B. claims against real assets.
- C. any assets capable of storing value over time.
- D. any assets that increase in value over time.

**Q2 (1 Point).** A key DISTINCTION between financial intermediaries (FIs) and dealers is:

- A. FIs are key players in auction markets whereas dealers are not.
- B. dealers earn profits through commissions whereas FIs do not.
- C. FIs engage in asset transformation whereas dealers do not.
- D. FIs earn profits by buying low and selling high, whereas dealers do not.

**Q3 (1 Point).** Key DISTINCTIONS between a broker and a dealer include:

- A. The broker posts bid and asked prices whereas the dealer does not.
- B. The broker buys low and sells high whereas the dealer sells low and buys high.
- C. The dealer keeps an inventory of the assets she trades in whereas the broker does not.
- D. The dealer posts bid and asked prices whereas the broker does not.
- E E.** Both C and D.

**Q4 (1 Point).** Which of the following markets are organized as OVER-THE-COUNTER markets:

- A. The Nasdaq stock market
- B. The foreign exchange market.
- C. The New York Stock Exchange.
- D. All of the above.
- E E.** Only A and B.

**Q5 ( 1 Point).** A corporate bond issued by the Microsoft Corporation is \_\_\_\_ for Microsoft and \_\_\_\_ for the buyer of the bond.

- A A.** a liability; an asset
- B. an asset; a liability
- C. real asset; a financial asset
- D. a financial asset; a real asset

**SEE THE FOLLOWING PAGE FOR  
Q6: WEB EXERCISE**

**Q6: Web Exercise (3 Points).** The Federal Reserve System publishes quarterly and annual data on assets and liabilities of sectors of the U.S. economy at a website titled **Flow of Funds Accounts of the United States**, accessible at

<http://www.federalreserve.gov/releases/Z1/>

Clues about trends in finance are provided by examining, in particular, the Fed's data on holdings of real (tangible) and financial assets by household and non-profit organizations.

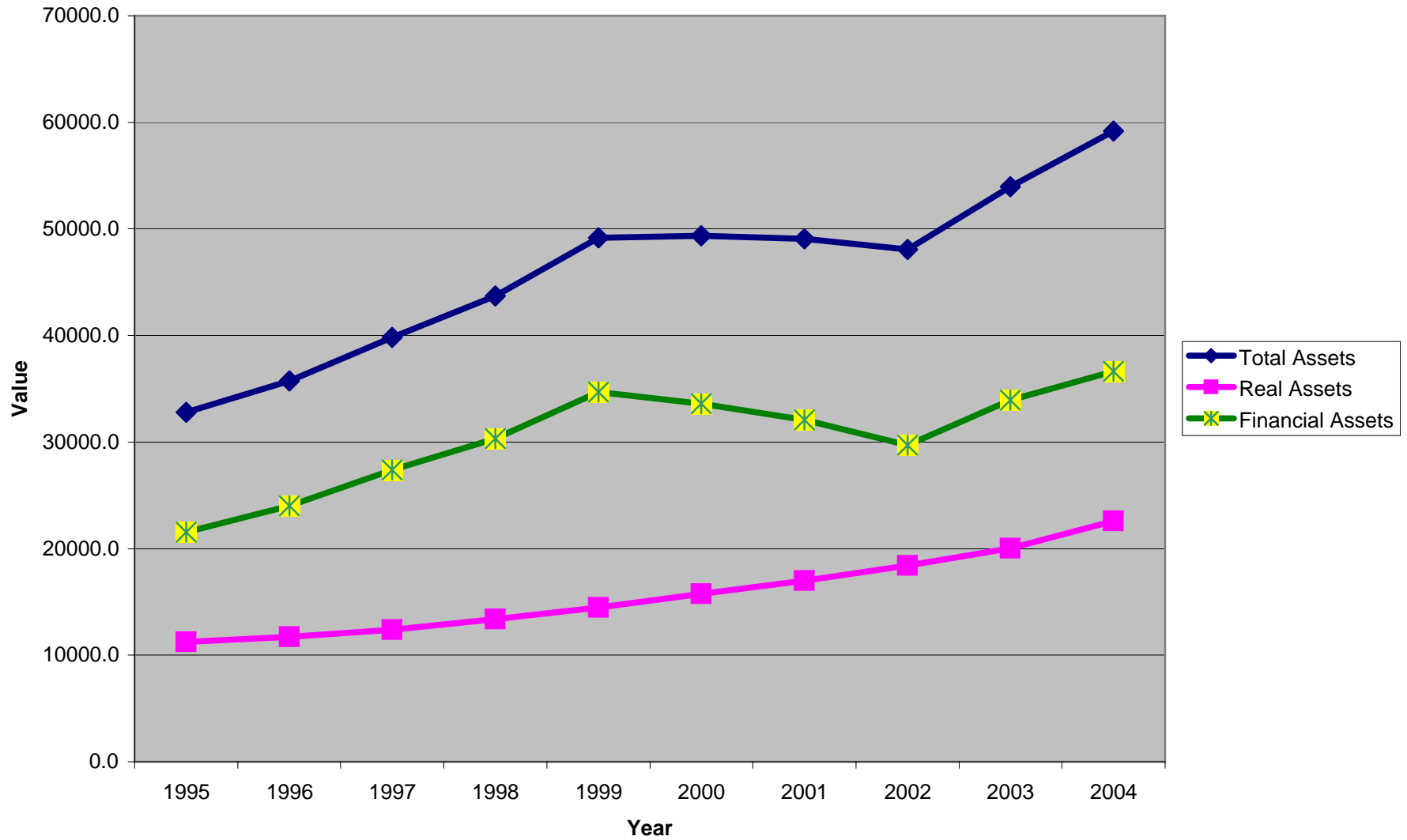
This Web Exercise asks you to prepare and analyze data from the above website regarding recent trends (1995-2004) in the real and financial asset holdings of U.S. households and nonprofit organizations.

- Part A.** Go to the above website. Click on “Historical Data” and then on “(1) Annual: 1995 to 2004 (372 KB PDF).” This should open up a document titled *Flow of Funds Accounts of the United States* (June 9, 2005 release date). At the end of this document, in the section called *Balance Sheet, Reconciliation, and Supplementary Tables*, locate the particular table “Table B.100e: Balance Sheet of Households and Nonprofit Organizations with Equity Detail.”
- Part B.** Using an Excel spreadsheet, prepare a clearly labelled graph (chart) that displays the following three time series over the years 1995 through 2004: **(a) Total assets** held by households and non-profit organizations; **(b) Total real assets** held by households and non-profit organizations; **(c) Total financial assets** held by households and non-profit organizations.
- Part C.** Using an Excel spreadsheet, prepare a second clearly labeled graph (chart) that displays the following two time series over the years 1995 through 2004: **(a) Deposits and credit market instruments, as a percentage of total financial assets**; and **(b) Equity shares at market value, as a percentage of total financial assets**.
- Part D.** Do you detect any apparent trends in these time series data? Does anything about these time series data strike you as being particularly interesting or surprising? If so, what?
- Part E.** Turn in print-outs of the two graphs (charts) for Parts B and C, together with your answer for Part D., on a sheet (or stapled sheets) of paper carefully labeled with your name, your Student ID number, and the phrase “Econ 353 Exercise 2.” Pass in this Q6 answer sheet (or sheets) along with your answer bubble sheet for Q1 through Q5, but do not staple or otherwise fasten this Q6 answer sheet (or sheets) to your answer bubble sheet.

B.100e Balance Sheet of Households and Nonprofit Organizations with Equity Detail  
 Flow of Funds Accounts of the United States  
 Historical Data (Annual: 1995 to 2004)  
<http://www.federalreserve.gov/releases/Z1/Current/data.htm>

<b>Assets</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Total Assets</b>	<b>32790.5</b>	<b>35719.9</b>	<b>39793.6</b>	<b>43704.8</b>	<b>49150.1</b>	<b>49358.2</b>	<b>49092.6</b>	<b>48089.8</b>	<b>53948.5</b>	<b>59185.7</b>
<b>Real Assets</b>	11243.8	11724.6	12387.5	13398.7	14478.8	15778.6	17009.7	18396.7	20025.1	22566.2
<b>Financial Assets</b>	<b>21546.6</b>	<b>23995.2</b>	<b>27406.2</b>	<b>30306.1</b>	<b>34671.3</b>	<b>33579.5</b>	<b>32082.9</b>	<b>29693.1</b>	<b>33923.4</b>	<b>36619.5</b>
<b>Deposits</b>	3297.7	3440.5	3615.4	3848.4	4019.4	4328.5	4784.7	5056.7	5229.0	5557.5
<b>Credit Market Instruments</b>	1949.6	2131.3	2091.3	2182.1	2277.0	2198.7	2024.9	1898.4	2075.6	2172.1
<b>Equity Shares (at Market Value)</b>	7605.7	9194.4	11829.0	13736.5	17257.0	15332.9	13075.7	10027.9	13037.0	14347.4
<b>Other</b>	8693.7	9229.0	9870.4	10539.1	11117.9	11719.4	12197.7	12710.2	13581.8	14542.6
<b>FinAssetSubTotCheck:</b>	<b>21546.7</b>	<b>23995.2</b>	<b>27406.1</b>	<b>30306.1</b>	<b>34671.3</b>	<b>33579.5</b>	<b>32083.0</b>	<b>29693.2</b>	<b>33923.4</b>	<b>36619.6</b>
<b>TotalAssetSumCheck</b>	<b>32790.4</b>	<b>35719.8</b>	<b>39793.7</b>	<b>43704.8</b>	<b>49150.1</b>	<b>49358.1</b>	<b>49092.6</b>	<b>48089.8</b>	<b>53948.5</b>	<b>59185.7</b>
<b>Dep + CMI</b>	5247.3	5571.8	5706.7	6030.5	6296.4	6527.2	6809.6	6955.1	7304.6	7729.6
<b>(Dep+CMI)/TotalFinAssets</b>	24.35%	23.22%	20.82%	19.90%	18.16%	19.44%	21.23%	23.42%	21.53%	21.11%
<b>Equity/TotalFinAssets</b>	35.30%	38.32%	43.16%	45.33%	49.77%	45.66%	40.76%	33.77%	38.43%	39.18%

**Asset Holdings of Households and Non-Profit Organizations (1995 - 2004)**



**Types of Financial Assets Held by Households and Non-Profit Organizations (1995-2004)**

