

Chapter 5

1. What is the broadest indicator(s) of the strength of the economy?
 - a. Local employment statistics
 - b. Gross domestic product
 - c. Long-term interest rates
 - d. Broker's profits for the most recent year

2. A healthy economy should generate
 - a. a low, stable inflation rate.
 - b. a low, overheated inflation rate.
 - c. a high, stable inflation rate.
 - d. a high, overheated inflation rate.

3. What can the Federal Reserve do to curb inflation?
 - a. Lower interest rates
 - b. Increase the money supply
 - c. Require larger down payments for loans
 - d. Increase interest rates

4. A large spread between short-term interest rates and long-term bond rates indicates that the Federal Reserve is
 - a. attempting to fuel the economy.
 - b. attempting to cool the economy.
 - c. discouraging people from spending.
 - d. encouraging an inflationary spiral.

5. What was the effect during the Great Recession of the lowest interest rates in decades and the credit boom that occurred in the previous few years?
 - a. Slowed down the housing market
 - b. Fostered subprime mortgage loans that are now in default
 - c. Increased number of corporate takeover plans
 - d. Increased credit availability

6. What is one of the problems of business planning during periods of stable inflation?
 - a. Easy to be lulled into a false sense of security
 - b. Hard to be optimistic
 - c. Easy to read economic indicators
 - d. Difficult to make timely adjustments

7. What influences consumer confidence?
 - a. Employment stability
 - b. Convincing real estate advertising
 - c. Rising interest rates
 - d. Additional environmental regulations

8. The essential challenge in economic growth and development is
 - a. stressing existing infrastructures.
 - b. increasing the number of entitlement programs.
 - c. balancing benefits with costs.
 - d. eliminating declining neighborhoods.

9. The measures of consumer pricing index include the prices of
 - a. food.
 - b. fuel.
 - c. housing.
 - d. energy.

10. When gauging consumer confidence, on what factors are dealers in less-frequently purchased items (such as vehicles, home appliances, and houses) *MOST* dependent?
 - a. Long-term sales trends
 - b. Short-term sales trends
 - c. Trends in monthly sales
 - d. Job growth predictions

11. Consumer confidence is *NOT ALWAYS* affected by
 - a. job security.
 - b. sufficient wages to support cost of living.
 - c. minimal debt.
 - d. low interest rates.

12. What is one of the indicators of the strength of the economy?
 - a. Housing market
 - b. Availability and cost of appliances
 - c. Number of alternative mortgage loans
 - d. Number of people over the age of 65

13. What is the effect of environmental issues on the real estate community?
 - a. Little effect in most parts of the country
 - b. Major effect on most business planners
 - c. Rarely intersect with private development
 - d. Minimal legal liability on real estate practitioners

14. The real estate community has *ALWAYS*
supported
 - a. development with additional environmental restrictions.
 - b. increased regulatory intervention to stimulate development.
 - c. using land development to eliminate social problems.
 - d. private property rights.

15. How do the interests of the public and the rights of private property owners affect each other?
- Restrictions that protect the public also enhance the private owner's enjoyment of the real estate.
 - Restrictions that protect the public also usually result in lower costs when the private owner wants to develop his real estate.
 - Environmental issues that protect the public usually do not have an adverse financial impact on the private owner.
 - Regulations that service the public interest can erode the rights of the private owner.
16. All of the following disclosures are generally required in residential real estate transactions *EXCEPT*
- disclosures of agency.
 - disclosures of property conditions.
 - disclosures of environmental substances.
 - disclosures of racial diversity of the neighborhood.
17. Which group has reached its maximum earning potential and remains a driving force in the real estate market?
- Generation X
 - Generation Y
 - Baby boomers
 - Immigrants
18. To meet the needs of foreign-born buyers, real estate companies should invest in
- teaching English as a foreign language.
 - financial planning.
 - cultural diversity training.
 - anti-discrimination instruction.
19. How well a real estate company performs is a function of how well management
- tolerates diversity.
 - analyzes factors in the local environment that have a bearing on its operations.
 - can respond to lower prices charged by the competition.
 - correctly predicts the next wave of job layoffs or job creation.
20. What are the primary reasons for population shifts from one part of the country to another?
- Employment opportunities
 - Desire for cultural diversity
 - Lower home prices
 - Area's tolerance for diversity

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1. b The gross domestic product (GDP) is one of the primary indicators of the general health of the economy, showing the total dollar value of all goods and services produced during a specific period of time. 84-85
2. c A healthy economy usually generates a low, stable rate of inflation. This trend continued in the United States in the 1990s, but inflation sharply increased to record highs during the Great Recession. 85
3. d Traditionally, to curb inflation, the Federal Reserve has increased interest rates, thus discouraging people from spending and growing the economy. Fewer buyers can afford larger down payments. 85
4. a A large spread between short-term interest rates and long-term bond rates indicates that the Federal Reserve is attempting to fuel the economy by loosening its monetary policy, thus encouraging people to spend and grow the economy. 85
5. b The extraordinary credit boom fostered extraordinary risk-taking that led to issuing billions of dollars in subprime mortgage loans, many of which headed into default in 2007. 86
6. a Business planning during periods of stable inflation often leads people into a false sense of security and results in the inability to quickly make adjustments when the economy tanks. 87
7. a Consumer confidence is affected to a major extent by employment stability and lower interest rates, not convincing real estate advertising or increased environmental regulations. 87
8. c The fundamental challenge in economic growth and development efforts is balancing benefits with costs, not only in terms of money but also in the amount of regulatory intervention that may be involved. 91
9. c The disconnect between the consumer price index and people's checkbooks comes from the fact that measures of core inflation do not include food, fuel, and energy costs—the very prices that have risen dramatically in recent years. 86-87
10. a Dealers in less-frequently purchased items (vehicles, home appliances, and houses) are more dependent on longer-term sales trends, interest rates, repair-versus-replace, and retrofit-old-versus-buy-new behaviors to judge future business. 87
11. d Consumers are sturdiest when they have job security, wages that are sufficient to support their cost of living, and minimal debt. Low interest rates, which are good for the housing market, are not good for people who rely primarily on investment income for their living expenses. 87
12. a The housing market is one indicator economists agree is a relatively sound gauge of the strength of the economy, and real estate enterprises are not the only businesses that have a huge stake in the housing market regaining momentum. 88
13. b Both the property owners and real estate industry have been saddled with volumes of regulations and not all are helpful to development; in essence, environmental issues have become real estate issues. 92
14. d The real estate community has always stood firmly on supporting private property rights, believing that too many restrictions limit the rights of ownership and too many controls can discourage development. 91
15. d Regulations that service the public interest can erode the rights of the private owner. Overly aggressive restrictions impede the fundamental rights of ownership, and aggressive controls can discourage development. 91-92
16. d Most state real estate regulators now require disclosure of agency relationships, disclosure of property conditions, disclosure of environmental substances, disclosure of financing terms, and disclosure of the way that various service providers participate with one another in real estate transactions. However, fair housing laws prohibit

- disclosures of neighborhood racial composition. 93
17. c The baby boomers, those born between 1946 and 1964, have reached their maximum earning potential. They continue to influence the real estate market as they downsize, relocate, or create multigenerational households. 95
 18. c Real estate companies can invest in cultural diversity training to help their agents better recognize and facilitate cultural differences in customs, taboos, and business etiquette. 98
 19. b How well a company does is a function of how well management analyzes factors in the local environment that have a bearing on its operations and how pragmatic, and perhaps bold, management is when predicting the future. A company must set its prices to reflect its costs and profit, not based on what other companies charge. 99
 20. a Population shifts are driven primarily by employment opportunities, but today's younger generations are also more inclined to explore new venues for their climatic, recreational, or cultural appeal than previous generations were. 98