

Name: _____

Econ 444: Bunting
Test 1: Fall 2016

Answer all the questions at 10 points each, explaining and using diagrams as appropriate.

1. Explain the use of yield curves in financial transactions. Compare and contrast the expectations, liquidity preference and preferred habitat theories of the yield curve.

2. Explain why bahts are money in Thailand but not in the United States.

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3. Compare and contrast the functions of primary and secondary securities markets.

4. Explain why lenders prefer indirect finance while borrowers prefer direct finance.

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5. Show and explain the Fisher effect from an increase in inflation.

6. Show and explain how deflation will affect the demand for money and the price of bonds.

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7. Show and explain how rising yields on U.S. Treasury bonds can be used to predict changes in the business cycle.

8. After graduation you note that fast track careers are open to those with MBA degrees. If the present value tuition cost of an MBA degree is \$70,000 and it adds an average of \$4000 to your annual income over a 40 year work life, should you get the degree if your lifetime expected interest rate is 3 percent? Would you get the degree if inflation rises 2 percent annually?

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9. Show and explain changes in the risk premium between U.S. Treasury and corporate bonds as the economy moves towards full employment.

10. You have \$8000 to invest. Your broker offers you a three year \$10,000 note or a five year \$10,000 note with an annual 3 percent coupon. If you seek 8 percent return on your investment, which note would you purchase? Provide the equations used to calculate your answer.