

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (5 points) Which part of my web page, <http://mysite.bethanywv.edu/wcsaplar/> do you think will be most helpful? Why? Is anything missing that you would like to see? What is the URL for the first exam from this class during the last semester it was taught?

2) (5 points) Which part of the Department of Economics and Business's web page, <http://www2.bethanywv.edu/econ/> do you think will be most helpful? Why? Is anything missing that you would like to see? If you were a sophomore Business major, then what courses does the departmental web page suggest you be taking this semester?

3A) (20 points) Draw the supply and demand for short-term securities and beside it the supply and demand for long-term securities. Draw them such that the unbiased expectations have no forecast change in interest rates, but there is still a liquidity premium. Draw the resulting two points on the yield curve. (It may be helpful to put the yield curve diagram between the other diagrams.) Explain how you got the yield curve from the other diagrams and why it takes the shape you drew.

3B) (10 points) Illustrate on those graphs the effects of people expecting the economy to improve. Explain why the curve(s) moved as drawn.

4) (10 points) The Fisher Effect says  $i = RIR + IP + RIR \times IP$ . What is that last term? Why is it there? Why is it often ignored? Note that this implies  $RIR = \frac{i - IP}{1 + IP}$ . (In Macroeconomics the equation for  $i$  is  $i = r + \pi + r \pi$ . Also, if you are trying to type "i" you will want to type two letter then a space. So, it will temporarily look like "ii". Delete one of the i's. Use your mouse or cursor movements to go past the space. Do not hit the space bar. I do not know about Word, but in WordPerfect, you can type i then space. After the computer turns i to I, hit ctrl Z. That will undo the capitalization.)

5A) (10 points) Suppose your mortgage is a 30 year mortgage. You pay \$500 at the beginning of the month. Set up the equation which calculate how much you borrowed. Briefly state how you found each entry. Use your calculator to find the exact amount.

5B) (5 points) Why can't you just multiply  $\$500 \times 30 \times 12$ ?

6) (20 points) Draw the supply and demand diagram for US Treasury Bonds. Illustrate the effect of Moody's downgrade of the bond rating which occurred last year. Explain why the curve(s) moved as drawn. What does your graph predict will happen to the interest rate? Explain your logic.

7) (15 points) When we listed the money market and the capital market, bonds ended up in both lists. Explain why some bonds are in one market and some are in the other? In other words, why are short-term bonds in the money market and other are not?