Home Assignment

1. In no more than 300 words, explain: Why are most of the U.S. dollars held outside of the United States?

2. Corporations receive funds when their stock is sold in the primary market. Why do corporations pay attention to what is happening to their stock in the secondary market?

3. If the interest rate is 7%, what is the present value of a security that pays you €1, 100 next year, €1, 200 two years from now, and so on for ten years (€100 increases each year)? If this security sold for €10, 500, is the yield to maturity greater or less than 7%? Why?

4. Use demand and supply analysis in the market for bonds to explain why an expectation of Central Bank official rate hikes would cause bond prices to fall.

5. In no more than 300 words, explain the similarities and differences between the European System of Central Banks and the Federal Reserve System.

6. In no more than 200 words, explain how changes in the Bank of England’s official rate affect inflation through changes in import prices.

7. In no more than 300 words, explain what are the main differences between Keynes and Friedman’s theories of the demand for money?

8. Give the quantitative and graphical impact of an increase in autonomous consumption expenditure from 20 to 25 (the marginal propensity to consume is 0.5).

9. Explain and demonstrate graphically the effects of an increase in oil prices in both the short-run and long-run.