

Financial Markets Homework 1

Due Date: 2023-09-26 23:59

Q1. If I can buy a car today for \$5,000 and it is worth \$10,000 in extra income next year to me because it enables me to get a job as a Uber driver, should I take out a loan from Larry the loan shark at a 90% interest rate if no one else will give me a loan? Will I be better or worse off as a result of taking out this loan?

(**Note:** usury is illegal in China and it is not protected by laws. Please DO NOT borrow money from loan sharks, especially DO NOT give them any photos/materials that you may regret in the future.)

Q2. Suppose that Toyota sells yen-denominated bonds in Tokyo. Is this debt instrument considered a Eurobond? How would your answer change if the bond were sold in New York?

Q3. If you suspect that a company will go bankrupt next year, which would you rather hold, bonds issued by the company or equities issued by the company? Why?

Q4. Why might you be willing to make a loan to your neighbor by putting funds in a savings account earning a 5% interest rate at the bank and having the bank lend her the funds at a 10% interest rate rather than lend her the funds yourself?

Q5. Most of the time it is quite difficult to separate the three functions of money. Money performs its three functions at all time, but sometimes we can stress one in particular. For each of the following situations, identify which function of money is emphasized.

(a) Brooke accepts money in exchange for performing her daily tasks at her office, since she knows she can use that money to buy goods and services.

(b) Tim wants to calculate the relative value of oranges and apples, and therefore checks the price per pound of each of these goods as quoted in currency units.

(c) Maria is currently pregnant. She expects her expenditures to increase in the future and decides to increase the balance in her saving account.

Q6. Rank the following assets from most liquid to least liquid.

(a) Checking account deposits

(b) Houses

(c) Currency

(d) Automobiles

(e) Savings deposits

(f) Common stock

Q7. Assume that you are interested in earning some return on the savings in your bank account and decide to buy some money market mutual funds shares using your savings. Comment on the effect of your action (with everything else the same) on M1 and M2.