A. ASSIGNMENT RECAP

- This is a timed online test consisting of **4 short answer questions** covering topics like interest rates, yield curves, financial institutions, and the impacts of monetary policy decisions.
- Students must answer all questions **within a 2 hour time limit** in a written document, with answers demonstrating understanding of financial concepts.

Structure:

1. **Question 1:** Calculate the future value of a deposit over a given time period at a specified interest rate under different compounding frequencies.
2. **Question 2:** Discuss the impact of an interest rate increase by the central bank on surplus and deficit economic units and explain the potential effect on interest rates if further hikes occur.
3. **Question 3**: Identify the shape of the yield curve shown in a graph of Chinese government bonds and explain the shape using relevant theories.
4. **Question 4**: Identify the largest group of financial institutions within the financial system and explain why they are the largest.

B. KEYWORD EXPLANATIONS

1. **Interest rate -** The cost of borrowing money or the return earned on savings, expressed as a percentage rate over a period of time. Interest rates affect the cost of credit and the incentives to save or invest.
2. **Compound interest rate -** Interest calculated on the initial principal and also on any accumulated interest from previous periods. Compounding increases the effective rate of return by reinvesting interest to generate additional interest over time.
3. **Deposit -** Funds placed with a financial institution in an account that allows withdrawals on demand or after a fixed term. Deposits represent a form of lending to the institution and earn interest as a return.
4. **Surplus economic units -** Entities that have disposable income left after consuming to lend or invest, including households that save and businesses retaining profits. They supply funds to deficit units.
5. **Deficit economic units -** Sensitivity analysis is the process of examining how the output of a model or decision varies based on changes to the inputs or assumptions in the analysis. It is used to understand how sensitive the conclusions are to the parameters used for valuation.
6. **Financial institutions -** Entities that conduct financial transactions and provide financial services, including banks, insurance companies, brokerages, investment funds, and government sponsored enterprises.

7. **Financial system -** The network of institutions, markets, and infrastructure that bring suppliers and users of funds together. It plays a key role in allocating capital and transferring risk.
8. **Monetary policy -** Central bank actions to regulate money supply and interest rates to achieve macroeconomic objectives like inflation control and employment maximization. Policy tools include open market operations, reserve requirements, and interest rate targeting.