1. Go to the Economic Research website (FRED) maintained by the Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org. Find the tab for Publications and click on Publications. Scroll down all the way to find Latest Data Trends. Choose Monetary.

   Now click on Measures of Expected Inflation. Using the graph and the data on the Federal Reserve Bank of Philadelphia Survey of Professional Forecasters and the University of Michigan Survey Research Center's Survey of Consumer, look up what the professionals' consensus forecast for inflation rate over the next year is. What do the consumers expect to happen to inflation over the next year?

   Answer:

   This question can be answered by studying the data presented in the first graph on https://research.stlouisfed.org/datatrends/mt/page8.php

   Please read the description given below the graph.

2. Go to the Economic Research website (FRED) maintained by the Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org. Find the tab for Publications and click on Publications. Scroll down all the way to find Latest Data Trends. Choose Monetary. Again click on Measures of Expected Inflation.

   Now look at the second graph on the page. What can you conclude on the 10-year ahead inflation expectations and realizations? Is the forecast error positive or negative?

   Answer:

   This question can be answered by studying the data presented in the second graph on https://research.stlouisfed.org/datatrends/mt/page8.php

   Please read the description given below the graph.

3. Go to the Economic Research website (FRED) maintained by the Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org. Find the tab for Publications and click on Publications. Scroll down all the way to find Latest Data Trends. Choose Monetary. Again click on Measures of Expected Inflation.

   Now look at the third graph on the page. How do the Treasury spreads move over time?

   Answer:

   This question can be answered by studying the data presented in the third graph on https://research.stlouisfed.org/datatrends/mt/page8.php

4. Go to the Economic Research website (FRED) maintained by the Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org. Find the tab for Publications and click on

Publications. Scroll down all the way to find Latest Data Trends. Choose Monetary. Again click on Measures of Expected Inflation.

Now look at the fourth graph on this page. Have real interest rates increased, decreased or remained the same over the last two years?

Answer:

This question can be answered by studying the data presented in the fourth graph on https://research.stlouisfed.org/datatrends/mt/page8.php

5. Go to the Economic Research website (FRED) maintained by the Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org. Find the tab for Publications and click on Publications. Scroll down all the way to find Latest Data Trends. Choose Monetary. This time, click on interest rates.

   What has happened to short-term nominal interest rates over the last two years? How does the three-month rate on AA non-financial commercial paper rate compare the three-month Treasury rate?

   Answer:

   This question can be answered by studying the data presented in first graph on https://research.stlouisfed.org/datatrends/mt/page9.php

   The difference between the AA non-financial commercial paper rate and the Treasury rate represents the credit spread. It is very small because it is highly rated and very short term.

6. Go to the Economic Research website (FRED) maintained by the Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org. Find the tab for Publications and click on Publications. Scroll down all the way to find Latest Data Trends. Choose Monetary. This time, click on interest rates.

   What has happened to long-term nominal interest rates over the last two years? Again compare the 10-year rate on Treasurys vs. 10-year Moodys AA-rated corporate bond yield.

   Answer:

   This question can be answered by studying the data presented in second graph on https://research.stlouisfed.org/datatrends/mt/page9.php

   The difference between the 10-year Treasurys and the 10-year corporate bond yield is the credit spread.

7. Go to the Economic Research website (FRED) maintained by the Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org. Find the tab for Publications and click on Publications. Scroll down all the way to find Latest Data Trends. Choose Monetary. This time, click on interest rates.

   What are the most recently available levels of 3-month and 10-year yields on Treasury securities?

   Answer:

   This question can be answered by studying the data presented in the two graphs on https://research.stlouisfed.org/datatrends/mt/page9.php

8. Which of the following corporate bonds would you expect to have a higher yield?

   a) Secured bonds
      No. Investors would be willing to accept a lower yield on secured bonds because the payments on the bonds are secured by a collateral.
   b) Callable bonds
      Yes. Because the issuer can call back the bonds at a time that is favorable to the issuer, the investors will typically be compensated by a higher yield than one on a similar non-callable bond.
   c) Convertible bonds
      No. Convertible bonds give the investors an opportunity to convert their bonds into equity shares when it is attractive. Therefore, investors will be willing to accept lower yields on convertible bonds.

   Answer:

   The correct answer is **b**.

9. Which of the following correctly describes a repurchase agreement?

   a) The sale of a security with a commitment to repurchase the same security at a specified future date and a designated price.

      Yes, a repo agreement is the sale of securities with an agreement to buy back those securities at a specified future date and a designated price.

   b) The purchase of a security with a commitment to purchase more of the same security at a specified future date.

      No. A repurchase agreement is not a commitment to purchase more.

   c) The sale of a security with a commitment to repurchase the same security at a future specified date at a future negotiated price.

No. A repurchase agreement is not a commitment to repurchase the same security at a future specified date at a future negotiated price.

Answer:

The correct answer is **a**.

10. What would you expect to happen to the spread between yields on commercial paper and Treasury bills if the economy were to enter a steep recession?

    a) The spread is likely to increase.

       Yes, it may be more difficult to borrow.

    b) The spread is likely to decrease.

       No. Think about how the recession is likely to affect the issuers.

    c) It would not change.

       No. Think about how the recession is likely to affect the issuers.

Answer:

The correct answer is **a**.

11. Which of the following statements is correct? (There may be multiple answers)

    a) The interest rate on Treasury Inflation Protected Securities (TIPS) is a risk-free real rate.

       That is correct. The yield on TIPS bonds should be interpreted as the real rate. Since TIPS are issued by the U.S. Treasury, they can be viewed as the risk-free real rate.

    b) The par value on TIPS is tied to the Consumer Price Index.

       That is correct. The par value is adjusted in proportion to increases in the Consumer Price Index for inflation.

    c) The coupon payments made on a TIPS remain constant in nominal terms through its maturity.

No, that is not correct. The coupon payments increase proportionally since the par value is adjusted with the general price level. They remain constant in real terms.

d) The par value on TIPS remains constant in real terms.
That is correct. The par value increases with the price level nominally, but it remains constant in real terms.

Answer:

The correct answers are **a, b and d**.