Homework 3

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Chapter 7

1. Gross domestic product is equal to the sum of all of the following except **personal savings in banks**.
    - D
2. Personal consumption expenditures (PCE) include **individual expenditures for durable goods**.
    - A
3. Most income for the Federal Government comes from **individual income taxes**
    - B
4. Which of the following expenditures account for the largest part of the Federal budget?
    - C **– direct benefits to individuals**
5. The most important savings surplus unit in the economy is **the savings of individuals**.
    - A
6. Motivations for individuals to deposit money into a savings account include **return on investment**
    - B
7. Which of the following is the most liquid form of savings?
    - A **– cash balances**
8. The proportion of after-tax profits retained by corporations.
    - B **– undistributed profits**
9. The major factors which influence the level of savings are the level of **income, economic expectations, cyclical influence, and the life stage of the individual saver**.
    - B
10. A saver who chooses securities as a savings medium and desires maximum safety of principal buys **government bonds**.
11. A home loan made to a borrower with a relatively high credit score indicating the likelihood that loan payments will be made as agreed to **prime mortgage**.
    - B
12. A mortgage with a constant interest rate with a constant periodic payment over the real estate loan's life.
    - C **– Fixed-rate mortgage**
13. A home loan made to a borrower with a relatively low credit score indicating the likelihood that loan payments might be missed when due.
    - D **– Subprime mortgage**

Chapter 8

14. In an inflationary period, interest rates have a tendency to **rise**.
    - A
15. A basic source of loanable funds is **current savings that flow through financial institutions**.
    - A
16. If the nominal interest rate is 8% and the risk-free rate is 3%, the expected inflation rate must be: $8\% - 3\% = 5\%$
    - B
17. As interest rates rise, the prices of existing bonds will **fall**.
    - C
18. As interest rates fall, the prices of existing bonds will **rise**.
    - A
19. Federal obligations usually issued for maturities of two to ten years are called **treasury notes**.
    - B
20. Federal obligations usually issued for maturities in excess of ten years are called **treasury bonds**.
    - A
21. Federal obligations usually issued for maturities up to one year are called **treasury bills**.
    - C
22. As the economy begins moving out of a recessionary period, the yield curve is generally **upward sloping**.
    - A
23. When referring to an “upward sloping” yield curve, interest rates **increase as maturity increases**.
    - D
24. When referring to a “downward sloping” yield curve **as maturities shorten, interest rates rise**.
    - B
25. The yield curve or the term structure of interest rates is typically downward sloping when **long-term Treasury interest rates are lower than short-term Treasury interest rates**.
    - C
26. When investors expect **higher** inflation rates they will require **higher** nominal interest rates so that a real rate of return will remain after the inflation.
    - A
27. **Demand-pull inflation** occurs during economic expansions when demand for goods and services is greater than supply.
    - D
28. Look up the Treasury rates for any particular day in the week of Jan. 24 – Jan. 28, 2022
    I want:
    The 1, 3, 6 and 1 yr T-Bills.
    Plus the 2, 5, 7 (if can find), and 10 yr T-Note.
    Also the 20 yr and 30 yr Treasury Bond.

    Plot them on an X-Y graph with the x-axis as time and y-axis as interest rate

Describe if an inverted, flat, or normal (upward sloping) curve.

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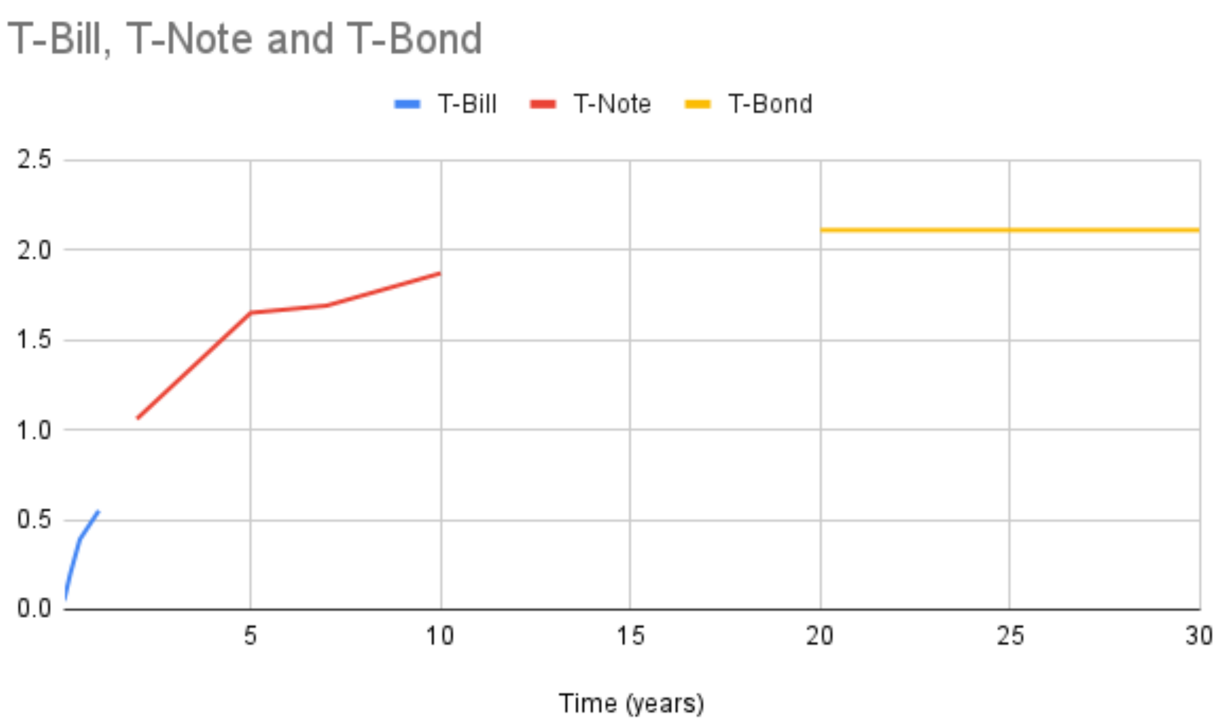
Time	T-Bill	T-Note	T-Bond
1 month	.05		
3 month	.20		
6 month	.39		
1 year	.55		
2 year		1.06	
5 year		1.65	
7 year		1.69	
10 year		1.87	
20 year			2.11
30 year			2.11



This is an upward sloping curve. Although it does seem to flatten out over time.