Econ 3143 Macroeconomic Theory II
Assignment 1
(Chapter 14)

(Due: before 12:00 pm, Oct. 4th, 2020. Please submit it through canvas)

1. **Multiple Choices.** Choose the one alternative that best completes the statement or answers the question.
10 multiple choice questions will be posted on Canvas.

2. Label each of the following statement true, false, or uncertain. Explain briefly.

a) The yield curve normally slops up.
b) The price of one-year bond increases when the nominal one year interest rate increases.
c) Worries about future inflation would tend to make the yield curve slope down.
d) An equal increase in expected inflation and nominal interest rate at all maturities should lead to a fall in stock prices.
e) A rational investor should never pay a positive price for a stock that will never pay dividends.

3. The equity premium and the value of stocks
(Question 4 of Chapter 14 in 7th edition)

4. Monetary policy and the stock market
(Question 6 of Chapter 14 in 7th edition)g

5. Housing price and bubbles
(Question 8 of Chapter 14 in 7th edition)

6. Suppose the yield curve is initially upward sloping. Use your knowledge of the IS-LM model and the yield curve to explain what effect each of the following events will have on the shape of the yield curve.

a) Financial markets expect a future reduction in consumer confidence which results in a reduction in consumer spending.

b) Financial markets expect a future Fed monetary expansion.

c) Financial markets expect a future reduction in government spending which is accompanied by a Fed monetary expansion.

d) Financial markets expect a future tax cut.