

Chapter 4

Nominal Interest rate - not adjusted for inflation
Factors affecting IR: Supply and demand for Assets determined by market conditions.

Determinants of Asset Demand: wealth: more wealth increases demand for assets

Expected Return: higher expected returns relative to alternatives increase demand for the asset.

Risk - higher risk decrease demand

Liquidity: Ease conversion to cash, increase demand for the asset.

Theory of Portfolio Choice: explains how much of an asset people want in their portfolios.