Quiz 09 for Sept 26

Started: Sep 24 at 2:09pm

Quiz Instructions

Complete this quiz by 11:00 a.m. on Monday September 26. Use care in submitting your answer according the the question's instructions. No credit will be given for entering your answer incorrectly.

Question 1 — 1 pts

If the forward rate for a contract starting in 2 years and ending in 3 years is 4.00%

- ( ) the expectation of the one-year interest rate that will be observed two years from now is likely to be equal to 4.00%.
- ( ) the expectation of the one-year interest rate that will be observed three years from now is likely to be less than 4.00%.
- ( ) the risk-neutral expectation of the one-year interest rate that will be observed two years from now is likely to be greater than 4.00%.
- (•) the expectation of the one-year interest rate that will be observed two years from now is likely to be less than 4.00%.

Question 2 — 1 pts

What will be the interest expense for borrowing $50 million under a repurchase agreement for four days if the repo rate for a term of 4 days is 3.80%?

State your answer in dollars to the nearest $1, e.g., 7458.

21,111

Question 3

1 pts

The Risk-adjusted Expectations Hypothesis implies that the yield curve can never be downward sloping.

- (•) True
- ( ) False

Question 4

1 pts

The main differences between SOFR and the effective federal funds rate (EFFR) is that

- ( ) SOFR is based on longer-term repurchase agreement rates and the EFFR is a secured rate set by the Federal Reserve.
- (•) SOFR is based on overnight Treasury repurchase agreement rates and the EFFR is an unsecured rate for borrowing bank reserves.
- ( ) SOFR reflects bank term borrowing costs better than the EFFR, which is why it was chosen to replace LIBOR.
- ( ) since SOFR is based on repurchase agreements, it reflects more default risk than the EFFR.

Question 5

1 pts

Ask one or more questions or make one or more comments on the material covered for this class.

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12pt Paragraph B I U A T²

What is the reason of using LIBOR if we already have SOFR?

p

12 words

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Quiz saved at 2:10pm

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