

NAME: _____

Student ID: _____



College of Business Administration
Department of Economics
Money and Banking
Lecturer: O. Mikhail
ECO 3223-0001
Spring 2006

QUIZ I

- This closed book QUIZ is worth 100 points.
The QUIZ totals 60 Multiple-Choice Questions and 2 Short-Essay Question.
ONLY your first 45 correct multiple-choice answers will count.
Each Multiple-Choice Question is worth 2 points.
The Short-Essay questions are worth 10 points.
Each short-essay question is worth 5 points.
Allocate your time accordingly.
- Including the cover page, the QUIZ totals 9 pages.
- DO NOT forget to write your name and your student id on the exam booklet.
- DO NOT forget to write your name and your student id on the computer sheet.
- Non-Programmable calculators and language dictionaries are allowed.
- At the end of the exam, hand-in the exam booklet and the computer sheet to the examiner.
- Write clearly. Write clearly. Write clearly.

February 6, 2006

6:00 p.m. – 8:00 p.m.

BA 1-147

Multiple-Choice Questions (90 points)

Solution handed in class

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Short-Essay Questions (10 points)

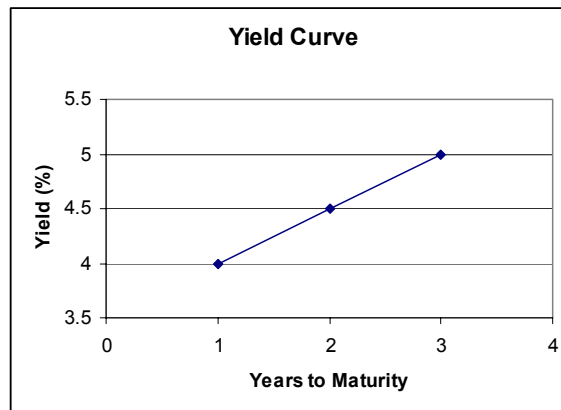
1. (5 points) Suppose that the interest rate on one-year bonds is 4 percent today, and is expected to be 5 percent one year from now and 6 percent two years from now. Using the expectations hypothesis, **compute and graph** the yield curve for the next three years.

Answer:

Yield for one-year bond = 4%

Yield for two-year bond = $(4\% + 5\%)/2 = 4.5\%$

Yield for three-year bond = $(4\% + 5\% + 6\%)/3 = 5\%$



2. (5 points) What impact would a stock-market collapse have on bonds? Why? **Explain.**

Answer: The perceived riskiness of bonds relative to stocks would fall and investors would shift their money into bonds. Demand for bonds would shift right, causing prices to rise and yields to fall.