

Session 11: Post Class tests

1. The Fisher Equation breaks down a nominal interest rate into expected inflation and expected real interest rate components. Which of the following would be inconsistent with the Fisher equation?
 - a. Double digit nominal interest rates
 - b. Double digit real interest rates
 - c. Negative real interest rates
 - d. Negative nominal interest rates.
 - e. None of the above
2. You are checking the rates on both the US 10-year treasury bond and on the US 10-year TIPS. The former is trading at an interest rate of 3% and the latter has an interest rate of 1%. What is the expected inflation rate (approximately) for the next 10 years?
 - a. 1.00%
 - b. 2.00%
 - c. 3.00%
 - d. 4.00%
 - e. None of the above

What is the more precise estimate of inflation?
3. Under which of the following conditions does it make the most sense to buy a ten-year TIPS instead of a ten-year treasury bond?
 - a. When you and everyone else expects inflation to be high for the next 10 years.
 - b. When you and everyone else expects inflation to be low for the next 10 years.
 - c. When you expect inflation to be low and everyone else expects inflation to be high for the next 10 years.
 - d. When you expect inflation to be high and everyone else expects inflation to be low for the next 10 years.
 - e. None of the above
4. It is conventional wisdom that central banks set interest rates. Which of the following rates is set by central banks?
 - a. Commercial paper interest rates
 - b. US treasury bill interest rates
 - c. Mortgage rates
 - d. Corporate borrowing rates
 - e. None of the above
5. The yield curve looks rates across maturities and investors look at it for cues for the future. Which of the following would be viewed as a sign of a recession or an economic slowdown?
 - a. Both short term and long term rates are low
 - b. Both short term and long term rates are high
 - c. Short term rates are low, long term rates are higher
 - d. Short term rates are high, long term rates are lower
 - e. None of the above