Assignment: Homework # 4 – posted in the internet – Due: 02/23/04

Main goal: Understand Short-run movements in Interest rates.

Class Outline
- The Bond Market Story
  o The demand for bonds
  o The inverse relationship between price of bonds and interest rate
  o Open market operations
- The money Market Story
  o Money demand
  o The LM relationship
  o The open market operations
- The connection between Bond and money markets

Main questions that you should be able to answer;
- What “interest rate” are we talking about?
  What is a short-run interest rate?
  There are the 3 kinds of Treasury Securities. What are the differences among them?
  Who issues the treasury securities?
  Why does interest rate change over time (monthly, yearly)?
  Is there a connection between movements in interest rates and recessions? What is it? What is behind it?
  Where is the interest rate determined?
  What is the fundamental idea in Finance?
  Explain why as interest rates on bonds increase, the price of bonds goes down?
  What does determine the price of bonds?
  Where does the supply of treasury securities (bills) come from? What is the supply of bonds?
  How would you define the demand for bonds? Who buys bonds?
  What is it that as price of bonds goes up the demand for bonds goes down?
  Where is the bond market? What is an investment bank? Define demand for bonds?