

UNIVERSITY OF ESSEX

DEPARTMENT OF ECONOMICS

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EC248-2-SP: MONETARY INNOVATIONS AND CENTRAL BANKS**Class 4 (8 February 2006): Problem Set – Sketch of Answers****Multiple Choice / Simple Computation Questions**

- 1) Of the following measures of interest rates, which is considered by economists to be the most accurate? (Mishkin, Chapter 4)
- (a) The yield to maturity
 - (b) The coupon rate
 - (c) The current yield
 - (d) The yield on a discount basis

Answer: A

- 2) The interest rate that equates the present value of payments received from a debt instrument with its value today is the (Mishkin, Chapter 4)
- (a) simple interest rate.
 - (b) discount rate.
 - (c) yield to maturity.
 - (d) real interest rate.

Answer: C

- 3) With an interest rate of 5 percent, the present value of \$100 next year is approximately (Mishkin, Chapter 4)
- (a) \$100.
 - (b) \$105.
 - (c) \$95.
 - (d) \$90.

Answer: C

- 4) With an interest rate of 10 percent, the present value of a security that pays \$1,100 next year and \$1,460 four years from now is (Mishkin, Chapter 4)
- (a) \$1,000.
 - (b) \$2,560.
 - (c) \$3,000.
 - (d) \$2,000.

Answer: D

- 5) If a security pays \$105 next year and \$110 the year after that, what is its yield to maturity if it sells for \$200? (Mishkin, Chapter 4)
- (a) 4 percent
 - (b) 5 percent
 - (c) 6 percent

(d) 10 percent

Answer: B

- 6) For a two-year simple loan of \$1000 at 10 percent interest, the amount payable in two years is (Mishkin, Chapter 4)

(a) \$1010.

(b) \$1100.

(c) \$1121.

(d) \$1200.

(e) \$1210.

Answer: E

- 7) If \$1102.50 is the amount payable in two years for a \$1000 simple loan made today, the interest rate is (Mishkin, Chapter 4)

(a) 2.5 percent.

(b) 5 percent.

(c) 10 percent.

(d) 12.5 percent.

(e) 20 percent.

Answer: B

- 8) If the amount payable in two years is \$2420 for a simple loan at 10 percent interest, the loan amount is (Mishkin, Chapter 4)

(a) \$1000.

(b) \$1210.

(c) \$2000.

(d) \$2200.

(e) \$2400.

Answer: C