UNIVERSITY OF ESSEX

DEPARTMENT OF ECONOMICS

Session 2005-06

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EC248-2-SP: MONETARY INNOVATIONS AND CENTRAL BANKS

Class 4 (8 February 2006): Problem Set - Questions

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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.