Name: ____________________

Quiz 1
266: Fi. Markets and Institutions
Spring 2014
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DIRECTIONS: We are looking for very concise answers. To the extent possible, write the answers in the space provided. Put your name on the quiz.

NOTE: Each individual question has equal value.

1 Some facts about real data.

1.1 Very short-term interest rates on U.S. Treasury bills are currently at approximately what level?

1.2 These short-term interest rates peaked at about what level in the period since the Great Depression?

1.3 What is the approximate yield-to-maturity on 10-year U.S. Treasury bonds at present?

1.4 The spread between Baa bond yields and 10-year U.S. Treasury bond yields rose sharply around the end of what year during the last decade? (note: 'spread between' means the difference between.)

1.5 Most of the time, the yield curve representing the yields on U.S. Treasury bonds has been sloped (choose one: upward or downward) implying that longer-term interest rates are (choose one: higher or lower) than shorter-term rates?

2 Bond terminology. Define the following terms as they apply to coupon bonds.

2.1 Coupon

2.2 Capital gain

2.3 Callable bond.

2.4 In general terms, what is the difference between what is measured by the duration of a bond versus the bond's maturity?

3 Some additional terms. Briefly define these terms.

3.1 Collateral

3.2 When we speak of 'indirect vs. direct financing' what do we mean by 'indirect financing'?

4 Some computations. You need not show work, but showing work will allow for partial credit in the event of a wrong answer.

4.1 Suppose I buy a 6-month Treasury Bill with a face value of \$100 at the price of \$99.04. What is the implied annualized rate of return, in percent, on this investment?

4.2 If the price of a double-decaf-caramel-pumpkin-no-whip-machiato-with-rainbow-sprinkles goes from \$3.00 in 2012 to \$4.50 2-years later, what has been the annualized rate of inflation of this price, in percent?

4.3 If the interest rate on 2-year loans today (at time t) is 1 percent and the rate on 7 year loans two years from now (at $t + 2$) is expected to be 3 percent, according to the expectations theory of the term structure, the current 9-year interest rate is what?