

END OF CHAPTER EXERCISES

Chapter 2 : The Business Environment

Investments : Spot and Derivatives Markets

(Keith Cuthbertson, Dirk Nitzsche)

1. What is the Federal Funds rate?
2. How can the Central Bank influence short-term interest rates?
3. Why is the distinction between 'real' and 'nominal' rates of interest important?
4. Should stocks and shares be counted as part of the wealth of the economy? Do asset prices (e.g. in the stock market) influence consumers' expenditure on goods and services?
5. If the government has a budget deficit, then how can it 'finance the deficit' and what might be the consequences for the real economy?
6. When the Central Bank raises short-term interest rates, why do all other interest rates tend to rise?
7. Why have financial intermediaries become so important in the economy? Do you think they will survive in their present form?