**Faculty of Commerce, Benha University**

**Economics of Money & Banking**

**Course Code:**

Economics E216

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## Tutorial 4

## Chapter 5 The Behavior of Interest Rates

1) Of the four factors that influence asset demand, which factor will cause the demand for all assets to increase when it increases, everything else held constant?
A) wealth B) expected returns C) risk D) liquidity

2) If wealth increases, the demand for stocks ________ and that of long-term bonds ________, everything else held constant.
A) increases; increases B) increases; decreases
C) decreases; decreases D) decreases; increases

3) An increase in an asset's expected return relative to that of an alternative asset, holding everything else constant, ________ the quantity demanded of the asset.
A) increases
B) decreases
C) has no effect on
D) erases

4) Everything else held constant, if the expected return on ABC stock rises from 5 to 10 percent and the expected return on CBS stock is unchanged, then the expected return of holding CBS stock ________ relative to ABC stock and the demand for CBS stock ________.
A) rises; rises B) rises; falls
C) falls; rises D) falls; falls

5) if housing prices are expected to increase, then, other things equal, the demand for houses will ________ and that of Treasury bills will ________.
A) increase; increase B) increase; decrease
C) decrease; decrease D) decrease; increase

6) If the price of gold becomes less volatile, then, other things equal, the demand for stocks will ________ and the demand for antiques will ________.
A) increase; increase B) increase; decrease
C) decrease; decrease D) decrease; increase

7) Holding everything else constant
A) if asset A's risk rises relative to that of alternative assets, the demand will increase for asset A.
B) the more liquid is asset A, relative to alternative assets, the greater will be the demand for asset A.
C) the lower the expected return to asset A relative to alternative assets, the greater will be the

demand for asset A.

D) if wealth increases, demand for asset A increases and demand for alternative assets decreases.

8) In the bond market, the bond demanders are the ________ and the bond suppliers are the ________.

A) lenders; borrowers
B) lenders; advancers
C) borrowers; lenders
D) borrowers; advancers

9) The supply curve for bonds has the usual upward slope, indicating that as the price ________, ceteris paribus, the ________ increases.

A) falls; supply
B) falls; quantity supplied
C) rises; supply
D) rises; quantity supplied

10) In the bond market, the market equilibrium shows the market-clearing ________ and market-clearing ________.

A) price; deposit
B) interest rate; deposit
C) price; interest rate
D) interest rate; premium

11) When the interest rate on a bond is above the equilibrium interest rate, in the bond market there is excess ________ and the interest rate will ________.

A) demand; rise
B) demand; fall
C) supply; fall
D) supply; rise

12) When the interest rate on a bond is ________ the equilibrium interest rate, in the bond market there is excess ________ and the interest rate will ________.

A) above; demand; rise
B) above; demand; fall
C) below; supply; fall
D) above; supply; rise

13) A situation in which the quantity of bonds supplied exceeds the quantity of bonds demanded is called a condition of excess supply; because people want to sell ________ bonds than others want to buy, the price of bonds will ________.

A) fewer; fall
B) fewer; rise
C) more; fall
D) more; rise

14) If the interest rate on a bond is below the equilibrium interest rate, there is an excess ________ of bonds and the bond price will ________.

A) demand; rise
B) demand; fall
C) supply; rise
D) supply; fall

15) A movement along the bond demand or supply curve occurs when ________ changes.

A) bond price
B) income
C) wealth
D) expected return

16) It is possible that when the money supply rises, interest rates may ________ if the ________ effect is more than offset by changes in income, the price level, and expected inflation.

A) fall; liquidity
B) fall; risk
C) rise; liquidity
D) rise; risk