Week 8 Homework

1. Suppose businesses have an optimistic outlook and expect an increase in sales and profits over the next several years. Describe and illustrate the impact on the market for bonds. What is the equilibrium impact on the price of bonds, the interest rate on bonds, and the quantity of trading?
2. Suppose consumers expect a decrease in interest rates over the next few months and years. Describe and illustrate the impact on the market for bonds with maturity dates between one and two years. What is the equilibrium impact on the price of bonds, the interest rate on bonds, and the quantity of trading?
3. Suppose an improvement in machine learning technology allows for more reliable ratings of bonds, allowing for businesses and consumers to trade larger quantity and greater variety of bonds with more confidence. Describe and illustrate the impact on the market for bonds. What is the equilibrium impact on the price of bonds, the interest rate on bonds, and the quantity of trading?
4. Suppose there is an improvement in technology for financial services that makes it costless and easy to move financial wealth back-and-forth between a checking account and interest bearing assets. Describe and illustrate the impact on the market for money. What is the equilibrium impact on the federal funds rate?

5. Suppose the Fed makes an open market purchase of bonds. Describe and illustrate the impact on the market for bonds. What is the equilibrium impact on the price of bonds, the interest rate on bonds, and the quantity of trading?
6. Suppose the Fed makes an open market purchase of bonds. Describe and illustrate the impact on the market for money. What is the equilibrium impact on the federal funds rate?
7. Suppose people expect government deficits to continue to grow, leading to growing national debt. If this becomes true, describe and illustrate the impact on the arket for bonds. What is the equilibrium impact on the price of bonds, the interest rate on bonds, and the quantity of trading?
8. Suppose people expect government deficits to continue to grow, leading to growing national debt, and so they expect the change in bond prices and interest rates that you illustrated in #7. What impact does this *expectation for future bond prices* have on the market for bonds today? What is the equilibrium impact on the price of bonds, the interest rate on bonds, and the quantity of trading?