





6. In December 2007, people began to expect the economy could fall into a recession due to drops in demand for goods and services. Suppose people expected real GDP to fall, unemployment to rise, and inflation rates to fall. Suppose people expect this situation for approximately three years before returning to normal. Draw and describe a yield curve that illustrates this situation.
7. In 1979, the inflation rate in the United States was very high. Paul Volker became chair person of the Fed in 1979 and immediately started raising interest rates. By 1981, the Federal Reserve increased the federal funds rate to 19% to combat inflation. Suppose in 1979 that people expected the significant contractionary monetary policy that was to come and expected it to last approximately one year, after which they expect the Federal Reserve to decrease interest rates significantly to history normal levels. Draw and describe a yield curve in 1979 that illustrates this expectation.

8. In March 2025, the Fed announced it would hold interest rates constant for the near-term, as there is risk for both recession and inflation, a change in stance from earlier communication for its intention to decrease interest rates as long as there was not risk for higher inflation. In February 2025, President Donald Trump and the head of the federal advisory Department of Government Efficiency, Elon Musk, both made public statements suggesting a recession in the future was possible. Suppose people expect the Fed to keep interest rates constant in the near term, but expect recessionary risk to dominate in the Fed's decisions in over the next one to three years. Suppose people have a significant degree of uncertainty for the path of monetary policy after three years. Draw and describe a yield curve in March 2023 that illustrates this scenario.

9. For fun, go to <https://www.ustreasuryyieldcurve.com/> and look at what the U.S. yield curve actually looked like on the following dates:

- (a) December 3, 2007: the situation in problem #6
- (b) January 1, 1979; the situation in problem #7
- (c) March 23, 2025; the situation in problem #8