

Economics 103, Financial Markets Module

Winter 2020

Bates College

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To complete this assignment, you should:

1. Watch the recorded lecture on Financial Markets. This will provide you with much of the necessary background.
2. Read this [article](#) from *Forbes* on recent activity in financial markets and how it relates to the real economy.
3. Read [discussion](#) on the housing market from *Marketwatch*.
4. Read this [article](#) from *CNBC* on the Fed and non-fundamentals in the U.S. stock market.

Instructions: Answer all parts of all questions. You are expected to independently craft your answers. Answers which incorporate current macroeconomic data are especially encouraged. The assignment is due by 11:59 PM on Sunday, April 5.

1. Over the past several years, have U.S. GDP and stock prices tended to move in the same direction, or the opposite direction?
2. How might the real economy have caused the recent decline in the U.S. stock market?
3. How might the recent decline in U.S. stock prices affect the real economy (*i.e.* unemployment, GDP, inflation, etc.) in coming months?
4. How might non-fundamentals have contributed to the recent decline in U.S. stock prices?
5. True or False? Lower interest rates have contributed to lower stock prices.

6. Why has the Fed worked to “provide liquidity” to numerous financial markets in addition to lowering interest rates and announcing quantitative easing?
7. Why are corporate bond yields generally higher than U.S. treasury yields?
8. How has the current economic crisis, and the Fed’s response, impacted corporate bond yields?
9. How are mortgage rates (the interest rate on home loans) generally affected by the real economy?
10. How and why have mortgage rates changed since the economic crisis began?