Bond Markets: Problems

1. Suppose that a one year bond has a face value of $1000. If it sells for $960, what is the yield?

2. Suppose that bond markets start to expect short-term interest rates to fall in two years. How will that affect long-term interest rates today?

3. Suppose that a three year bond has a face value of $100. If it sells for $85, what is the yield?

4. When a government begins to run a larger budget deficit, how does that affect the price of the bond and the yield. Use a simple model of supply and demand.

5. When other financial assets, such as stocks, are seen as riskier, savers sometimes respond by increasing their demand for Treasuries because they are seen as safer. How would this affect the price of bonds and the associated yields?

6. Discuss some of the factors that might require one corporation to pay a higher yield on its bonds than another?

7. Discuss some of the factors that might require one country to pay a higher yield on its bonds than another?

8. Discuss some of the factors that might require one college to pay a higher yield on its bonds than another?

9. Suppose that the nominal interest rate is 5% and the real interest rate is 3%. What is expected inflation?

10. True or False? If Treasury yields rise, it must be the case that people believe that the U.S. government is more likely to default on its debt.