

## Unit 5 - Week 3

### Course outline

How does an NPTEL online course work?

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Week 3

- Lecture 11 : Theories of interest rate determination-I
- Lecture 12 : Theories of interest rate determination-II
- Lecture 13 : Term structure theories of interest rate-I
- Lecture 14 : Term structure theories of interest rate-II
- Lecture 15 : Term structure theories of interest rate-III
- Lecture Material

**Quiz : Assignment 3**

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## Assignment 3

The due date for submitting this assignment has passed.  
As per our records you have not submitted this assignment.

Due on 2020-02-19, 23:59 IST.

1) The \_\_\_\_\_ theory posits that the yield curve is determined by supply and demand conditions unique to each maturity segment 1 point

- a. Pure Expectations
- b. Liquidity Premium
- c. Preferred Habitat
- d. Market Segmentation

- a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
d

2) In the context of liquidity trap, the \_\_\_\_\_ demand for money becomes perfectly elastic. 1 point

- a. Transaction
- b. Preventive
- c. Speculative
- d. Precautionary

- a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
c

3) According to Keynes, interest rate is a purely monetary phenomenon. 1 point

- a. True
- b. False

- a  
 b

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
a

4) The one year spot rate is 3.5%, three-year spot rate is 5% and four-year spot rate is 5.5%. Assuming Pure Expectations Theory, the forward rate one-year from now implied by these spot rates is approximately closest to : 1 point

[Hint: take values to at least four decimal points while calculating]

- a. 8.75%
- b. 7.57%
- c. 7.01%
- d. 7.88%

- a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
c

5) The Classical theory, the Loanable fund theory and the Keynesian theory help determine the term structure of interest rate 1 point

- a. True
- b. False

- a  
 b

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
b

6) A downward sloping yield curve most likely indicates: 1 point

- a. Investors expect future short-term spot rates to be higher than the current short-term spot rate
- b. Investors have become capital risk averse
- c. The central bank has restricted short term borrowing
- d. Investors expect future short-term spot rates to fall below the current short-term spot rate

- a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
d

7) Vertical integration of the industry structure reduces the transaction demand for money 1 point

- a. True
- b. False

- a  
 b

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
a

8) Which of the following is/are true: 1 point

**Statement I:** The classical theory is a static theory

**Statement II:** The classical theory assumes full employment level of income

- a. Only I
- b. Only II
- c. Both I and II
- d. Neither I nor II

- a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
c

9) The loanable fund theory takes a more short-run view of the process of interest rate determination in place of the secular or long-run view taken by the Classical theory 1 point

- a. True
- b. False

- a  
 b

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
a

10) Which of the following is not a determinant of the supply of loanable funds? 1 point

- a. Dissaving
- b. Bank money
- c. Disinvestment
- d. Disharding

- a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
a

11) The term structure of interest rate refers to the relationship between different interest rates and the length of the time to maturity (ceteris paribus) 1 point

- a. True
- b. False

- a  
 b

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
a

12) Interest elasticity of speculative demand for money increases as the interest rate \_\_\_\_\_ 1 point

- a. Increases
- b. Decreases
- c. Does not change
- d. Remains ambiguous

- a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
b

13) The Risk Premium Theory (RPT), posits that there is a liquidity premium for long-term bonds over short-term bonds. 1 point

- a. True
- b. False

- a  
 b

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
a

14) An inverted yield curve implies that: 1 point

- a. Long-term interest rates are lower than short-term interest rates.
- b. Long-term interest rates are higher than short-term interest rates.
- c. Long-term interest rates are the same as short-term interest rates.
- d. None of the above

- a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
a

15) Default risk indicates: 1 point

- a. Bond issuer cannot make principal payments
- b. Bond issuer cannot make interest payments
- c. There is a delay in payment
- d. All of the above

- a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
d

16) A risk premium is sometimes called the "liquidity premium" 1 point

- a. True
- b. False

- a  
 b

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
a

17) The saving schedule is \_\_\_\_\_ sloping while the investment schedule is \_\_\_\_\_ sloping. 1 point

- a. Downward, upward
- b. Upward, upward
- c. Downward, downward
- d. Upward, downward

- a  
 b  
 c  
 d

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
d

18) Relationship between interest rate and precautionary demand for money is called the Liquidity Preference Curve 1 point

- a. True
- b. False

- a  
 b

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
b

19) According to Classical theorists, the equilibrium real rate of interest is independent, that is it is not affected by changes in price level 1 point

- a. True
- b. False

- a  
 b

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
a

20) With reference to transaction demand for money and frequency of income receipt, longer the pay period, smaller will be the amount of money required for the transaction purpose 1 point

- a. True
- b. False

- a  
 b

No, the answer is incorrect.  
Score: 0

Accepted Answers:  
b