

Past Midterm Exam

Question 1 (15 points)

- a) (5 points) Suppose you discover a treasure chest of \$10 billion in cash. Is this a real or financial asset? Can this discovery contribute to the productive capacity of the economy?

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- b) (5 points) What would you expect to happen to the spread between yields on commercial paper and Treasury bills if the economy were to enter a steep recession? Explain your answer.

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- c) (5 points) Suppose security X is a 3 month bill selling at \$9,674 and security Y is a 6-month bill selling at \$9,539. Both have a face value of \$10,000. Which of the two securities have a higher effective annual yield?

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