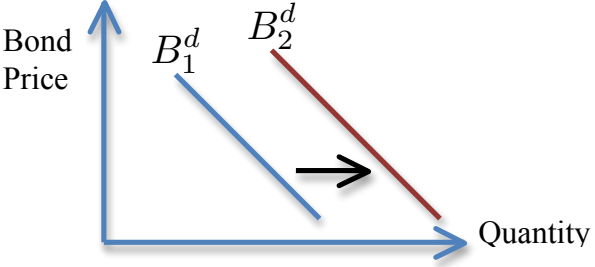


**Question 1. Factors that shift the demand for bonds ( $B^d$ )**

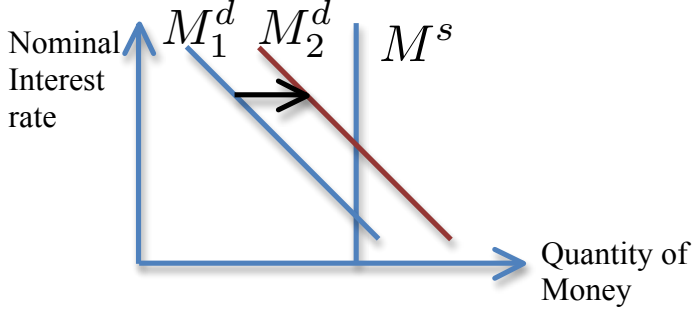
All else being equal An <u>increase</u> in	Cause	Graph the effect on the bond Market
Wealth (example)	$B^d$ ...↑	
Expected Return on Bonds	$B^d$ .....	
Expected Inflation	$B^d$ .....	

All else being equal An <u>increase</u> in	Cause	Graph the effect on the bond Market
Expected Return on other assets	$B^d$ .....	
Riskiness of Bonds relative to other assets	$B^d$ .....	
Liquidity of Bonds relative to other assets	$B^d$ .....	

**Factors that shift the supply of bonds (B<sup>S</sup>)**

<p>All else being equal An <b>increase in</b></p>	<p>Cause</p>	<p>Graph the effect on the bond Market</p>
<p><b>Expected Profitability</b></p>	<p>B<sup>S</sup>.....</p>	
<p><b>Corporate Tax on Profits</b></p>	<p>B<sup>S</sup>.....</p>	
<p><b>Expected Inflation</b></p>	<p>B<sup>S</sup>.....</p>	
<p><b>Government Borrowing</b></p>	<p>B<sup>S</sup>.....</p>	

**Factors that shift the Demand and Supply of Money**

All else being equal An increase in	Cause/ Money Demand or Money Supply/ Increase or decrease	Graph the effect on the money market
Income (example)	Money Demand ↑	
Price Level		
Money Supply		

**Question 2.** Explain the three main theories of the term structure of interest rate.

	Segmented Market Theory	Expectation Theory	Preferred Habitat and Liquidity Premium
Key Assumption			
Results			
Can the theory explain fact (1), most of the time the yield curve tends to slope up?			
Can the theory explain fact (2), interest rates at all maturities usually move together?			

**Question 3 :** Why do corporate bonds tend to have higher interest rates than government bonds?