

Econ 302 - Study Guide

Exam #2 - Abrams

Fall 1999

Know:

Loanable funds theory of the interest rate

what factors shift the supply and demand for bonds

Liquidity preference theory of the interest rate

What factors shift money demand

**liquidity effect, price effect, income effect and
inflationary expectations effect**

Risk structure of interest rate

**default risk, liquidity, tax treatment, market risk: how
they affect bond demand and interest rates**

term structure theories and the yield curve

segmented markets theory

expectations hypothesis

preferred habitat

predictions of the different theories

what different yield curves tell us

**Exchange rate: definition and effects of appreciation and
depreciation on trade and cost of imports**

**Long run factors that affect exchange rates (price level, tariffs
and quotas, import demand, export demand, and
productivity**

**Short-run factors that affect the exchange rate (real
expected returns on financial assets)**