IFN 201 – International Financial Markets

Study Questions 2

Multiple Choices

1. Financial markets primarily serve to:

A) Accumulate savings without investment
- B) Channel funds from savers to investors efficiently
C) Prevent lending between institutions
D) Replace monetary policy

2. Which of the following is NOT a main component of the financial system?

A) Financial Institutions
B) Financial Instruments
C) Financial Markets
- D) Household Expenditure Reports

3. Which role of financial markets allows investors to convert their assets into cash easily?

- A) Liquidity provision
B) Price determination
C) Risk sharing
D) Information flow

4. The money market deals with:

A) Long-term investments
- B) Short-term debt instruments (≤ 1 year)
C) Stock exchange trading
D) Real estate investments

5. A commercial paper is:

A) A long-term corporate bond
- B) A short-term unsecured note issued by corporations
C) A derivative based on government securities
D) A savings certificate issued by individuals

6. The primary market is where:

A) Only government bonds are traded
B) Investors trade among themselves
- C) Securities are issued and sold for the first time

D) Speculators influence price volatility

7. The secondary market mainly provides:

A) New financing for companies
- B) Liquidity and continuous price discovery
C) Initial issuance of shares
D) Regulation of monetary policy

8. According to the loanable funds theory, when savings exceed investment demand:

A) Interest rates rise
- B) Interest rates fall
C) Inflation increases
D) Money supply contracts

9. If the expected inflation rate increases while the real interest rate remains constant, nominal interest rates will:

A) Decrease
B) Remain unchanged
- C) Increase
D) Become negative

10. A normal yield curve usually indicates:

A) Economic recession ahead
- B) Long-term rates are higher than short-term rates
C) Investor pessimism
D) Equal yields across maturities

True/False Questions

1. Financial markets act as the heart of the economy, circulating money from savers to investors. (TRUE)

2. The bond market deals exclusively with equity securities. (FALSE)

3. Money markets provide liquidity and short-term funding to participants like banks and corporations. (TRUE)

4. Capital markets only include government bonds and exclude private companies. (FALSE)

5. The secondary market transfers funds directly to the issuing company. (FALSE)

6. The Fisher Equation links nominal interest rate, real interest rate, and expected inflation. (TRUE)

7. When demand for loanable funds rises faster than supply, interest rates tend to fall. (FALSE)

8. Inverted yield curves often signal future economic slowdown.   (TRUE)

9. The time value of money assumes that ₺1 today is worth less than ₺1 tomorrow. (FALSE)

10. A higher risk premium increases the interest rate demanded by investors.   (TRUE)

Essays

1. Future Value (FV):

If you invest ₺10,000 at an annual interest rate of 6% for 4 years, what is the future value?
Formula: $FV = PV \times (1 + r)^n$
Answer: ₺10,000 × $(1.06)^4$ = ₺12,625.

2. Present Value (PV):

You will receive ₺15,000 in 3 years. If the discount rate is 8%, find the present value.
Formula: $PV = FV / (1 + r)^n$
Answer: ₺15,000 / $(1.08)^3$ = ₺11,907.

3. Nominal Interest Rate (Fisher Equation):

If expected inflation (πe) is 5% and the real interest rate (r) is 3%, calculate the nominal rate (i).
Formula: $i = r + \pi e$
Answer: i = 3% + 5% = 8%.

4. Net Present Value (NPV):

An investment costs ₺20,000 today and will generate ₺8,000 per year for 3 years at a 10% discount rate.
Formula: $NPV = \Sigma(CFt / (1 + i)^t) - I_0$
Answer: NPV = $(8{,}000/1.1) + (8{,}000/1.1^2) + (8{,}000/1.1^3) - 20{,}000$ = ₺984 (positive, accept project).

5. Yield Curve Interpretation:

If 1-year bonds yield 5% and 10-year bonds yield 8%, what type of yield curve exists?
Answer: Normal (upward-sloping).