Name of the Course: B.A.(H) Economics   Semester: 6

Name of the Paper: MONEY AND FINANCIAL MARKETS   Faculty Name: Manisha Jayant

Maximum Marks: 10+10=20

Date of Test: 20.03.2024, 25.04.2024

TEST 1

Q. (a) Differentiate between Exogenous and Endogenous money supply curves. What will be the impact of following events on each of these curves?

i. Rise in excess reserves holdings of banks (ER)

ii. Increase in use of digital mode of payments

iii. Central bank reduces the required reserve ratio

(b) Discuss Free-rider problem in aggravating adverse selection and moral hazard problems in financial markets.

TEST 2

Q. (a) Suppose investors prefer one-year bonds to two-year bonds and will purchase a two-year bond only if they expect to receive an additional 4% over the return from holding one-year bond. Currently one-year bonds yield 5% but investors expect yield to fall to 4% next year.

i. Which of the three models of term structure of interest rates is relevant in this case? Give reason.

ii. What is the yield on 2-year bond?

iii. Is the yield curve upward sloping, flat or downward sloping? Give reason.

(b) Suppose a call option on a stock has an exercise price of Rs. 700 and a cost of Rs. 20, and suppose you buy the call option. Identify the profit to your investment, at the call's expiration, for each of these values of the underlying stock: Rs. 250, Rs. 700, Rs. 1000, Rs. 690, Rs. 710.

ASSIGNMENT 02.05.2024

Q.

(1) Examine various issues involved in the formulation of monetary policy and inflation targeting in the Indian context.

(2) Briefly describe the four areas in which BASEL III is an enhancement over BASEL II.