Exercise walk-through

Financial Assets ▪ 4.1

eXercise

You must be able to

- describe common **financial assets 金融资产**: stocks, bonds, and bank deposits
- explain the inverse relationship between a **bond's price** and its **interest rate** (yield)
- relate the **risk** and **return** of an asset to its **liquidity 流动性**

Method — Financial assets

Stocks (part-ownership of a firm), **bonds** (loans that pay interest), and **bank deposits** (cash held at a bank).

Method — Bond price and yield

A bond's price and its interest rate move in **opposite** directions: when market rates **rise**, the price of existing bonds **falls** (their fixed payments look less attractive).

Method — Risk, return, liquidity

Higher **risk** usually brings higher **return**; a more **liquid** asset (easily turned into cash) usually offers a lower return.

Practice 2.1 ▪ 2 marks

Name three financial assets.

Solution 2.1

Method: Financial assets

Worked steps

any three of: stocks, bonds, bank deposits B1 B1.

Practice 2.2 ▪ 1 mark

State the relationship between a bond's price and interest rates.

Solution 2.2

Method: Bond price and yield

Worked steps

they move in opposite directions (an inverse relationship) **B1**.

Practice 2.3 ▪ 1 mark

State the general link between an asset's risk and its return.

Solution 2.3

Method: Risk, return, liquidity

Worked steps

higher risk generally brings a higher return **B1**.

Exam-style 3.1 ▪ 1 mark

When interest rates rise, the prices of existing bonds

- **A** rise
- **B** fall
- **C** stay the same
- **D** double

Solution 3.1

Method: Bond price and yield

A rise

B fall ✓

C stay the same

D double

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

A more liquid asset is one that is

A harder to sell

B easily converted into cash

C always riskier

D always a stock

Solution 3.2

Method: Risk, return, liquidity

A harder to sell

B easily converted into cash ✓

C always riskier

D always a stock

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

Interest rates in the economy rise.
(a) State the effect on the price of existing bonds.
(b) Explain why.

Solution 3.3

Method: Bond price and yield

Worked steps

(a) it falls B1. (b) new bonds now pay the higher rate, so an old bond's fixed lower payments are worth less, and its price drops to match the new yield B1 B1.