AP MACROECONOMICS • EXERCISE SHEET

4.1 Financial Assets

Name: ______________ Class: __________ Date: ____________ **Total: 9 marks**

Objective

Build the skills to answer exam questions on **financial assets**.

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

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Financial assets

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

■ 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).

■ Risk, return, liquidity

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

2 Practice

2.1 Name three financial assets. [2]

2.2 State the relationship between a bond's price and interest rates. [1]

2.3 State the general link between an asset's risk and its return. [1]

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3 Exam-style questions

3.1 When interest rates rise, the prices of existing bonds [1]

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

3.2 A more liquid asset is one that is [1]

- **A** harder to sell
- **B** easily converted into cash
- **C** always riskier
- **D** always a stock

3.3 Interest rates in the economy rise.

(a) State the effect on the price of existing bonds. [1]

(b) Explain why. [2]

4 Go further

- work through the **4.1 Financial Assets** lesson on the **Learn** page;
- read the **Financial Sector** section of the AP Macroeconomics handout on the **Know** page.

Solutions

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

2.2 they move in opposite directions (an inverse relationship).

2.3 higher risk generally brings a higher return.

3.1 B.

3.2 B.

3.3 (a) it falls. (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.