Solutions

Each answer shows the steps, then the **result**.

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