AP MACROECONOMICS • EXERCISE SHEET

4.1 Financial Assets

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

KEY WORDS bonds 债券 • financial asset 金融资产 • stocks 股票 • liquidity 流动性

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]

3 Exam-style questions

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

A B
C D

A rise
B fall
C stay the same
D double

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

A B
C D

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]