

COVER SHEET FOR HOME STUDY PROBLEM
SOUTH CAROLINA BANKERS SCHOOL

FIRST-YEAR CLASS -- 2022 School Session

HOME STUDY PROBLEM I

Based on Lectures in **Economics/Money and Banking**

Instructor **Mr. Ronald L. "Rusty" Copsey, Jr.**

Submitted by: Name _____

Bank _____

Bank's Mailing Address _____

ZIP CODE

List the other members of your class with whom you worked in preparing this solution:

I certify that this home study problem is my original work and that all writings by any other person, business, or organization, including my own bank, have been carefully documented. I have not shared my completed work with any other SCBS student nor have I read the completed work of any other students.

Signature: _____

Due Date **September 14, 2022**

Date Submitted _____

Date SCBS Received _____

Date Returned to Student _____

ATTENTION STUDENT: UPLOAD TO SCBA's PORTAL OR MAIL HOME STUDY PROBLEM TO:

South Carolina Bankers School
Post Office Box 1483
Columbia, S.C. 29202

OR EXPRESS/REGISTERED MAIL TO: 2009 Park Street, Columbia, SC 29201

**ECONOMICS / MONEY & BANKING
2022 HOME STUDY PROBLEM**

Throughout this Home Study problem, use terms and definitions provided in the Class Syllabus unless otherwise directed.

1. Define the term and provide a brief definition of each factor determining the Term Structure of Market Interest Rates

$(r^*) =$ _____.

IP = _____.

MRP = _____.

DRP = _____.

LP = _____.

2. Which of the two factors determining the Term Structure of Market Interest Rates from Question #1 are omitted when calculating the Treasury Yield Curve?

_____ and _____.

Why are these factors omitted? Support your answer.

3. When added together, $(r^*) + \text{MRP} + \text{IP}$ provide a graphic representation of the Treasury Yield Curve. What is the primary purpose of the Treasury Yield Curve?

4. What is the KEY CONCEPT between Bond Prices and Interest Rates?

5. Per <https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>, the Fed Funds Interest Rate is currently targeted to trade between _____% - _____% per the July 26 – 27, 2022 meeting of the FOMC.

6. According to <https://www.bls.gov/cps/>, the Unemployment Rate for the United States for the month of July 2022 = _____% (data released on August 5, 2022).

7. According to <https://www.bls.gov/cpi/>, the Inflation Rate, measured using CPI, for the United States for the prior 12 months thru July 2022 = _____% (data released on August 10, 2022).

8. The factors driving CPI for the prior 12 months thru July 2022 were:

9. According to <https://www.bea.gov/data/gdp/gross-domestic-product>, Economic Growth, measured using GDP, for the United States for the 2nd Quarter of 2022 (2nd Estimate) = _____% (data released on August 25, 2022).

10. The factors driving Real GDP for the 2nd Quarter of 2022 (2nd Estimate) were

Locate and Print a copy of the United States Treasury Yield Curve as of August 5, 2022 and **attach it to this report. Five points (-5) will be deducted from your final grade for failure to attach a copy of the Yield Curve to this report.**

The Yield Curve can be found at <https://www.wsj.com/market-data/bonds> or https://www.gurufocus.com/yield_curve.php.

On wsj.com website, you have to print screen to get the Yield Curve to print. On gurufocus.com website, you have the option to specifically print only the Yield Curve.

11. Define the Yield Curve Pattern: _____.

12. Using the Treasury Yield Curve dated August 5, 2022, do you think United States Interest Rates are expected to (i) increase, (ii) decrease, or (iii) stay the same? _____.

Based on your answer to Question 12, answer either (a) or (b) or (c) below:

(a) If you think United States Interest Rates are expected to increase, when do the bond market participants think the increase is going to occur? _____.

Support your answer:

(b) If you think United States Interest Rates are expected to decrease, when do the bond market participants think the decrease is going to occur? _____.

Support your answer:

(c) If you think United States Interest Rates are expected to remain the same, provide a basis for your answer.

13. Incorporating the Dual Mandate of the FOMC of the United States Central Bank of Price Level Stability (Low Inflation) and Full Employment with the shape of the Treasury Yield Curve dated August 5, 2022, the primary objective of the FOMC of the United States Central Bank with regards to the Yield Curve should be to:

What are the Primary Tools the FOMC of the United States Central Bank could use to accomplish this objective and how would these tools be used in this scenario?

14. _____

15. _____

16. _____

What are the Secondary Tools the FOMC of the United States Central Bank could use to accomplish this objective and how would these tools be used in this scenario?

17. _____

18. _____

19. _____

20. Your “best customer” has requested a loan that will be repaid over a 15-year amortization period. Assume you do not have access to a swap desk or derivatives contract to pass potential Interest Rate Risk to another market participant. From the perspective of a Bank Lender and using the Treasury Yield Curve as of August 5, 2022 above, do you want to offer your Customer a Fixed Interest Rate or a Variable Interest Rate? _____ . Support Your Answer:

