Flash 1 Test Financial System

A corporation needs to raise money to build a new plant. They can raise the funds through direct or indirect financing. Provide an example of direct and indirect financing.

Calculate the Present value of a loan repaying 300 euros in two years in interest rates are equal to 10% per annum. Use annual compounding.

If the prevailing nominal interest rate is equal to 5% and the expected rate of inflation is equal to 3%, calculate the real interest rate.

When interest rates change the price of a zero coupon 10 year bond is generally more volatile than the price of a 15 years zero coupon bond. Do you agree? Calculate the duration of the bonds bonds. Calculate the price change of the two bonds assuming that interest rate is equal to 5% and it increases to 6%.

How can you define money markets? Provide few examples of money markets instruments.

Highlight the differences between Treasury Bonds and Corporate bonds

How new treasury bonds are issued by the Treasury Ministry in the US?