Mankiw/Taylor Web site

Short Answer Questions
Chapter 27.

1. Why does the value of money differ today compared to some point in the future?

2. Calculate the present value of €500 in ten year's time at an interest rate of 4 per cent.

3. If the interest rate is 5.5 per cent and someone offered you a choice of €1 000 now or €1 500 in 8 year's time which would you choose? Explain.

4. Assume two economies have incomes growing at 3 per cent and 10 per cent a year respectively. Using the rule of 70, explain how long it will take each economy to double its income.

5. Explain the relevance of risk aversion and risk seeking in financial markets.

6. Outline the main principles involved in pricing risk.

7. What is the difference between aggregate and idiosyncratic risk?

8. What is meant by the term 'fundamental analysis'?

9. Outline the main features of the efficient markets hypothesis.

10. Do you think that the efficient markets hypothesis offers the best current explanation for the operation of financial markets? Explain your answer.

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