Securities & Markets (Mid-Term) Cheat Sheet

by studiewme via cheatography.com/151570/cs/35441/

Chap 1

1. What is risk?	Uncertainty of the outcome which cannot be avoided
2. What is return?	Amount of money received by an investment
3. What is the relationship between risk & return?	Directly related. The greater the risk, the higher the return.
4.What is Price?	Current price in which an asset/services/product can be bought
5. What determines price?	a. Time value of money
	b. risk premium
6. Pricing Mechanism in different types of Markets:	a. Markets in goods &services
	b. labour market
	c.Financial Market - (credit, securities)
7. Who sets base rate?	Central Bank
8. Who sets other interest rate?	Market Forces
9. What is the relationship between interest rate and bond prices?	When interest rates go up, bond prices fall in order to have the effect of equalizing the interest rate on the bond with prevailing rates, and vice versa.

Chap 1 (cont)

10. Why do you think a Central Bank may raise interest rate?	inflation,to reduce economic activity
11. advantages and disadvantages of doing so:	Adv: encourage savings?
12. Life cycle hypothesis.	a. early stages: income is 0 as they are unemployed.
	b. once employed, income will rise year by year
	c. income will fall to 0/ close to 0 if they are unemployed, ill for a long period of time

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