

Answers:

1. Name the 3 major categories of financial markets.

Debt (aka bond) market

Stock (aka equity) market

Foreign exchange (aka currency) market

2. Which category of financial market (if any) is each transaction?

e) You sell 100 shares of IBM stock stock market

f) You pay cash for a 1993 Honda none

g) You get a \$3000 student loan debt market

h) You pay \$100 to get 500 French francs for your vacation. Foreign exchange

3. What is a financial intermediary, and why can they make profits?

A financial intermediary channels money from those with excess funds to those with a shortage of funds. It can use its expertise and economies of scale to reduce transactions costs, determine prices, and examine the worthiness of those engaged in financial transactions, making it worthwhile for folks to be willing to pay for its services.

4. Solve for x : $x = 1 / (1 + 4\%)^2$

$x = 1 / (1.04)^2 = 1 / 1.0816 = .9245562$ (rounded)