The Exam consists of 8 questions.

Three questions are from the first part of the course (before Midterm).

The questions are primarily essay questions with strong emphasis on the intuition behind models and results.
Part I

1. Bond Pricing
2. Duration
3. Term Structure – Expectations Hypothesis
4. Interest Rate Risk
   A. Funding Gap
   B. Duration Gap
   C. Hedging Interest rate risk
      i. Interest Rate Futures
      ii. Swaps
      iii. Securitization
Part I - continued

1. Financial Crisis – Brunnermeir article.
   1. CDO’s and the monoline insurers.
   2. Funding liquidity and market liquidity – interaction.
2. New lending facilities for monetary policy (NOT on the test).
Part II – Models of Banks and Lending under incomplete information

A. Some tools and concepts
   A. Expected utility
   B. Risk aversion
   C. Optimal insurance

B. Banks as providers of optimal liquidity insurance.
   A. Autarky, bond trade, Pareto Optimum.

C. Gertler-Hubbard model of investment
   A. Incentive compatibility constraint
   B. Financial accelerator – role of net worth
   C. Know the graph (EO, OC, IC curves)
Part III – Modern Macro Model for Policy

1. Gali and Gertler article
   A. Modern IS curve
      i. Derived from consumption Euler equation
      ii. Forward looking – long term real rates affect consumption
   B. Taylor Rule – importance of coefficient on inflation.
Final Exam

- Bring Blue Books
- Calculator may be needed
- How to study?
  - Create an index of terms for each topic
  - Understand how models relate – intuition of each
  - Keep the big picture in mind