Determinates of interest rate :

Chapter 2

بناءً ع "General interest rate" تحدد بسبب اختلاف قيم ال ف .

How to Price a financial instrument? ch 2., ch. 3

* Debt $P_0 = \frac{Par}{(1+r)^n}$ تؤثر بشكل مباشر

security $P_0 = \frac{DiV}{k-g}$ Indirect effect

$K = Rf + \beta(Rm - Rf)$

* Required Rate of Return Negative relationship with Price

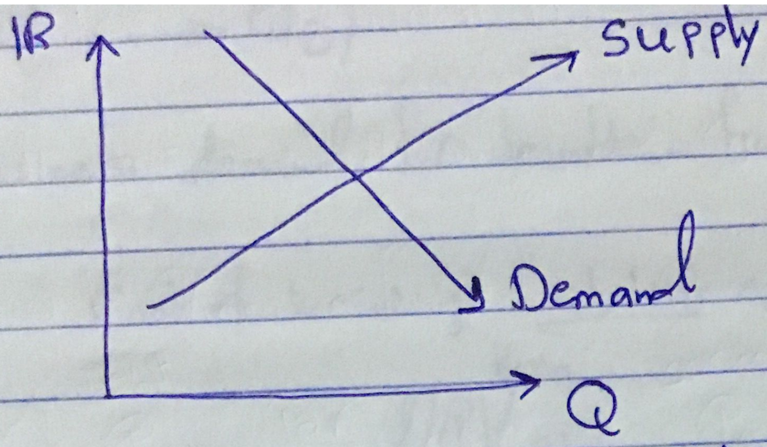
Any change in Rf effect k and the Price of equity instrum.

* Rf is a Component for all financial securities

* The interaction between all money supplied and money demanded. Determines the interest rate.

ع مستوى البلد : supplier و Demander Household, business, GoV.

ع مستوى اوسع : supplier و Demander International, //, //, //

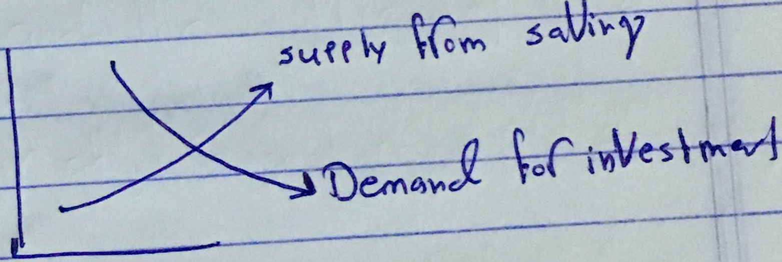


$\cancel{i \uparrow \rightarrow M_d}$ $i \uparrow \rightarrow M_s \downarrow$

Classical theory :- supply, saving, Demand for investment

نرى كل كمية supply from saving مع Demand for investment ومكان التقاطع هو i

Saving = Income - expenditure



New classical theory :- loanable fund theory → أموال قابلة للاقتراض

يحتاجها لشراء بيت, سيارة ومستلزمات.

عندما أقرر ان أقترض من شخص ولسداد هذا الدين

يجب ان اقتطع جزء من استهلاكي

$i \downarrow \longrightarrow Q_D \uparrow$

Business demand for loanable funds :-

Cost of borrowing = at least equal Required Rate of Return

then

$NPV = 0 \longrightarrow I.I = \sum P.V_{cf's}$

$NPV > 0 \longrightarrow$ Added Value

Cost of borrowing 10%

Bank ⟶ firm ⟶ equipment

10% RRR ⟶ Required Rate of Return

* كل الـ interest في داخل البلد الثابت له . general level of interest

eg:- 48 Corporation   Government

↓

اختلاف الـ i فيه له

general level of interest

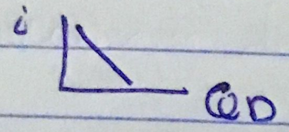
وتحسب الـ i هو

equilibrium between money demand and supply.

1. House hold ⟶ أغراض شخصية
2. business
3. Government
4. forign demand

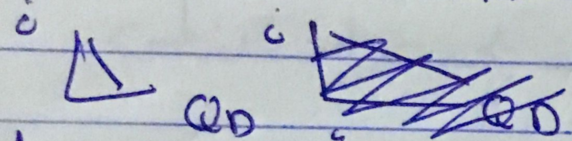
House hold demand → Elastic

يعني لما يتغير الـ i تتغير الـ Q_D و "العلاقة عكسية"



$i \uparrow \rightarrow Q_D$

business demand → Depends on investment available opportunities



بناءً "Rate of Return" ام اذا أوفر قروض ام لا

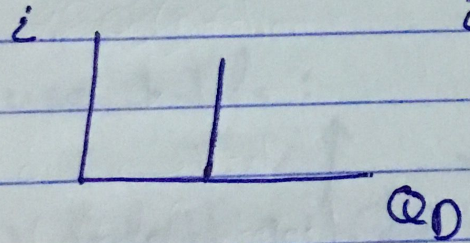
" elastic However less than household"

Government "federal government" :-

+) it needs loans to cover high expenditures

"inelastic Demand"

لا علاقة بين الـ Q_D و i

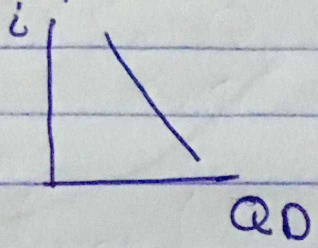


Foreign Demand :-

Demand on a security is based on the i of the country's interest 'investor's interest"

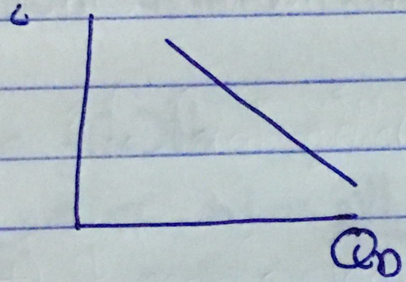
بريطانيا "بلد المستثمر"	USA	مكان العمل للاستثمار
4.5%	4%	UK
8%	4%	USA

Munipilicity Government Demand



بسبب وجود التزامات يجب ان تغطى
لا اعطي الكثير من الاهمية ب i

Aggregate Demand

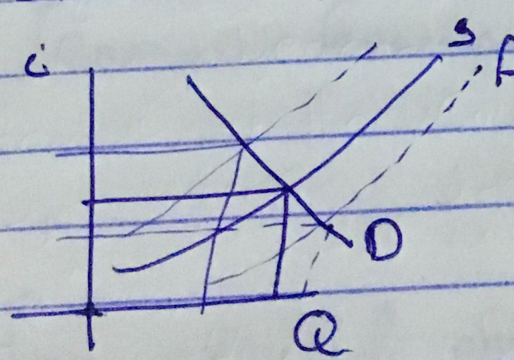


inverse relationship
"Downword sloping"

supply of money

1. House holds :
$i\uparrow \longrightarrow Q_s\uparrow$

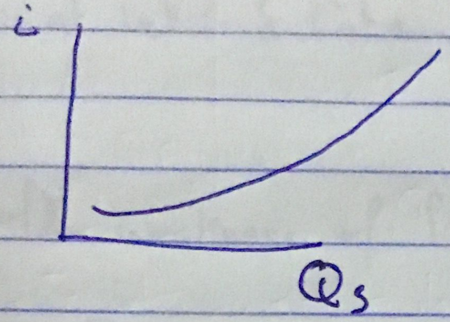
2) federal government
Open market operations :-



A) شراء اسهم سوف تزيد الاموال في السوق
lower i

b) بيع سندات
Higher i

Aggregate supply



* عندما يتأثر M_D او M_S يؤثر على i من خلال shifting

factors that affect interest rate

1. Economic growth

الشرص يتأثر بالنمو الاقتصادي هو business

economic growth

Eg → To borrow for investment opportunity

يزيد ال Demand

"shifting Demand curve to the right"

i يزيد

* ال supply لا يمكن تحديده ؛ ممكن شراء عقار او

Economic recession → Demand يقل

"shift demand curve to the lift"

i يقل

Infilation expected one in the future :-

infilation

Demand increases

supply Decrease

~~infl~~ i increase

Deflation

العكس

Nominal interest rate $= r^* +$ Infilation "fisher equation"

r^* ↓ in term of Purchasing Power

one of the weakness of fisher equation that infilation is fully anticipated

3. Monetary Policy السياسة النقدية

$\longrightarrow$ Reserves

Reserves $\uparrow \longrightarrow M_s \downarrow \longrightarrow i \uparrow$

4. Government Deficit

اريد ان أحرّك ال Demand

+) تغطي ال expenditures

+) وممكن نتحكم في interest

مهم جداً

forcasting interest rate

1. forcasting for demand and supply

chapter 3

Risk structure of i

↓

2 issuers, same maturity, Different i

1) liquidity
2) Credit Risk
3) Tax rate
4) ~~[illegible]~~ Maturity