Problem Set 5 for Economics 180.266:
Financial Markets and Institutions
Due at the beginning of class on November 7

Note: Point totals are shown at the beginning of each question.

1. (20 points) Consider the original Taylor rule as proposed by John Taylor. Suppose that the unemployment rate is 7%, the inflation rate is 1.5% and the NAIRU is 5%. What should the federal funds rate be, according to this rule?

2. Note: In parts (a) and (b) of this question, be sure to use the rates after the October FOMC meeting.
   (5 points) (a) What is the current level of interest on reserves paid by the Fed?
   (5 points) (b) What is the current reverse repo rate paid by the Fed?
   (5 points) (c) Give an example of a type of institution that is not eligible to receive interest on reserves, but is eligible for reverse repos.

3 (10 points). What was the median prediction for the federal funds rate at the end of 2020 made by the FOMC at its meeting in September 2019?

4. (5 points) (a) What is the size of the Fed balance sheet as a percentage of US GDP?
   (5 points) (b) What is the size of the ECB balance sheet as a percentage of euro area GDP?
   (5 points) (c) What is the size of the Bank of Japan balance sheet as a percentage of Japanese GDP?

5. (10 points) Find the S&P credit rating of Mexico for (a) local currency long term debt and (b) foreign currency long term debt.

6. (20 points) (a) Find the 10 year Italian and German bond yields (GTITL10Y Govt and GTDEM10Y Govt, respectively) on the following dates: November 25, 2011, November 2, 2017, May 28, 2019 and October 30, 2019. Compute the spread between Italian and German bond yields on each of these four dates. (To be precise, please use the Bid YTM).
   (10 points) (b) Discuss the reasons behind the changes in the spread.