Central Bank Policy

PRO PRACTICE WORKSHEET

Work through these by hand or with a spreadsheet. There's no wrong answer, the goal is just practice.

Section 1 - Trace a Rate Cut's Ripple Effect

A central bank cuts rates by 0.5 points. Predict the likely direction for mortgage rates, existing bond prices, growth stock valuations, and the domestic currency.

Section 2 - Calculate a Present Value Impact

A $100 cash flow arrives in 10 years. Calculate its present value at an 8% discount rate, then again at a 9% discount rate. What's the percentage change?

Section 3 - Distinguish the Decision From the Guidance

Think of a hypothetical rate decision that matches expectations exactly, but comes with surprisingly hawkish guidance. Would you expect markets to move? Why?

Section 4 - Consider the Lag

If a central bank cuts rates today, would you expect unemployment to improve immediately? Explain using the concept of policy lag.

Section 5 - Reflection

In your own words, explain why growth stocks are often called 'rate-sensitive' while mature, dividend-paying stocks are less so.