1. Suppose that the term structure of the yield curve is determined by the expectations-based model described in Lecture. Assume that there is no risk premium associated with yield for different maturities.

   a. Suppose that \( i_t = 0.02 \), \( E_t(i_{t+1}) = 0.03 \), \( E_t(i_{t+2}) = 0.04 \), \( E_t(i_{t+3}) = 0.06 \). What is the implied yield on 4 period bonds?

   b. Suppose that \( i_t = 0.05 \) and \( i_{3,t} = 0.05 \). Describe possible expectations for \( i_{t+1} \) and \( i_{t+2} \) and interpret your answer.

2. Answer question 3 on Problem Set 1 in light of the analysis of risk and return described in lecture.

3. Will the random walk theory of stock prices, as derived in lecture, hold if the gap between \( t \) and \( t+1 \) is large? Explain.

4. Mankiw, chapter 18, problem 1

5. Mankiw, chapter 18, problem 4

6. Mankiw, chapter 18, problem 8

7. Mankiw, chapter 18, problem 11