

I. Choose the correct answer

1. **What is the primary role of interest rates in the financial system?**
 - A. To regulate inflation
 - B. To allocate resources efficiently
 - C. To encourage savings and borrowing
 - D. All of the above
2. **Which of the following factors directly influence interest rates?**
 - A. Government policies
 - B. Supply and demand for money
 - C. Inflation expectations
 - D. All of the above
3. **What term describes the compensation lenders receive for lending money?**
 - A. Inflation rate
 - B. Nominal interest rate
 - C. Opportunity cost
 - D. Default risk
4. **If the inflation rate is higher than the nominal interest rate, the real interest rate is:**
 - A. Positive
 - B. Zero
 - C. Negative
 - D. Unchanged
5. **Which type of interest rate accounts for inflation?**
 - A. Nominal interest rate
 - B. Variable interest rate
 - C. Fixed interest rate
 - D. Real interest rate
6. **Interest rates are determined by the intersection of:**
 - A. Government regulations and tax policies
 - B. Money supply and demand for credit
 - C. Savings and investment levels
 - D. Bank profits and central bank policies
7. **How do higher interest rates affect borrowing?**
 - A. Increase borrowing costs, reducing demand
 - B. Decrease borrowing costs, increasing demand
 - C. Have no effect on borrowing
 - D. Encourage speculative borrowing
8. **What is the central bank's primary tool to influence interest rates?**
 - A. Taxation
 - B. Open market operations
 - C. Foreign exchange reserves
 - D. Government spending

9. **What is the effect of an increase in interest rates on savings?**
A. Encourages savings
B. Discourages savings
C. Has no impact on savings
D. Leads to reduced financial stability
10. **Which of the following describes a fixed interest rate?**
A. Changes based on inflation
B. Remains constant over the loan term
C. Fluctuates with market conditions
D. Only applies to short-term loans

II. Answer the following Questions

1. **Explain the relationship between interest rates and inflation.**
2. **Describe the factors that influence the determination of interest rates in the financial system.**
3. **Discuss how central banks use interest rates as a monetary policy tool.**
4. **How do changes in interest rates impact consumer behavior and economic growth?**
5. **Explain the difference between nominal and real interest rates.**