1. According to the yield curve short term interest rates (1 year maturity) are 1% p.a. and long term interst rates (2 year maturity) are 2% p.a.

   (a) Applying the expectations theory calculate approximately the short term expected interest rates in one year.

   (b) Assume 1,5%-points of the long term interest rates are attributed to a liquidity premium. How does this affect the result of (a)?

   (c) What can you conclude from (a) and (b) for the development of an economy within the business cycle and monetary policy of the central bank?