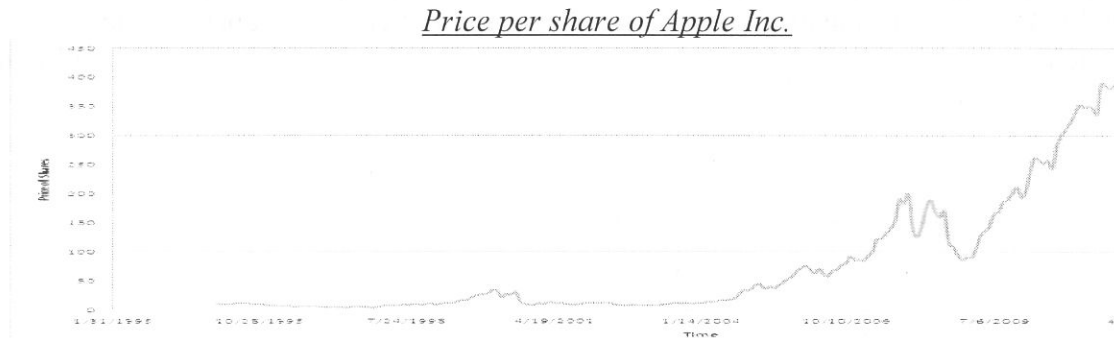


*Instructions: Attempt all questions.*

1) Apple Inc. has been one of the best stock performers in recent history. Below is a graph of the stock price over time.



i) Use consumer theory, that is, consumer demand analysis, to postulate and discuss two possible explanations of Apple's stock price movement. (4 points)

2) By the summer of 2008 the global financial markets began to spiral into dismay due to the U.S sub-prime mortgage crisis. Many large companies and financial institutions went bankrupt. The U.S government and the Federal Reserve Bank created and implemented a number of initiatives in an effort to avoid an economic catastrophe. Among these include the lowering of the FED discount rate, large open market operations, and "operation twist".

i) In your own words, describe the FED discount rate. Explain in detail how the lowering of the FED discount rate, should help to stimulate credit, production, and employment. (4 points)