750 words - in text citations and references.

Consider the following scenario:

Hickman Savings and Loan is concerned that market conditions might cause the short-term yield curve to be higher than the long-term yield curve. This negative yield curve means that long-term interest rates are lower than short-term rates. This will cause the bank to shift from its mortgage-based business strategy to one dominated by short-term loans, which is not an area that the bank has much market share. Explain how the yield curve is affected by the following:

* Liquidity preferences theory
* Market segmentation theory
* Expectation theory
* Other economic factors

Is it important for a bank to follow the yield curve? Why or why not?

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| **Grading Criteria** |
| Explain how the yield curve is affected by the liquidity preferences theory. | 35% |
| Explain how the yield curve is affected by the market segmentation theory. | 20% |
| Explain how the yield curve is affected by the expectation theory. | 20% |
| Explain how the yield curve is affected by other economic factors. | 20% |
| APA citation and references (if applicable) or the percentage will be assessed in the criteria above. | 5% |

250 words – in text citations and references.

Consider the following scenario:

Freeport Bank is committed to increasing its commercial mortgage market share but is concerned about interest rate risk. Write 250 words explaining to the bank's management team the various types of interest rate risk. Be sure to address the following components of interest rate risk:

* Market risk
* Reinvestment risk
* Inflation risk

How important is interest rate risk to Freeport Banks long-range strategic planning? How can the bank protect itself from these types of interest rate risk?

**Suggestions for Reviewing Peer Posts**

Compare and contrast the answers given by your peer to your own on the importance of long-range strategic planning and interest rate risk. What similarities or differences exist? What additional points can you make to support his or her responses?

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| **Grading Criteria** |
| Response to Discussion Questions | 80% |
| Response to Peer Posts | 15% |
| APA citation and references (if applicable) or the percentage will be assessed to response to peer posts. | 5% |