

The structure of interest rates and real interest rates

[Literature](#), [Russian Literature](#)



Money and Banking al Affiliation Reasons why the interest rates on the Credit card is higher than that on the automobile loan

There are various reasons credits for higher interest rates on credit cards as compared to the automobile loans. The fact is that, credit cards are often unsecured. Failure to comply with the credit card's loan does not accord the bank with the rights of repossessing them (Guttentag & Cagan, 1969). So, the loan made by the issuer of credit card is accompanied with greater risk as compared to the secured loan. This hence tends to heighten the interest rates level to a greater extent.

The other basic reason is that; those interest ratings are often determined by the prevailing market conditions. The credit card firms are not usually bound towards any form of specific limits regarding their ultimate interest rates.

They can thus charge any amount they may wish to as long as they have commendable competitive rates with other existing credit card firms.

Finally, the rates are often higher on credit cards so as to encourage people to make payments on time. It is based on the reasoning that; the longer you delay your repayments, the higher the interest penalties.

Reasons why the interest rates on a security sold by a city government are less than those sold by a corporation under similar default risks:

The corporate bond's credit ratings are often higher than those offered by the government bonds to a greater extent. This is because the corporate bonds usually have low ratings, thereby giving out an implication of a higher credit risk possibility as compared to the investment-grade bonds

(Schwartzman, 1992). Therefore, they tend to offer a little bit higher rates so as to curb with the increased risks. On the other hand, the government

bond's credit ratings are often lower because they are not ultimately secured by any form of assets. They are instead backed up by the credit and full faith of the issuer. This is hence what brings out this form of disparity.

The concept behind the interest rates during recessions:

Recession generally refers to a situation when there is a temporary decline with regards to the economic stability, whereby the trade and the industrial operations are totally reduced. It is generally identified by the fall in the GDP over a given successive quarters. Based on this, the interest rates tend to be reduced since it impacts on all the businesses (Guttentag & Cagan, 1969).

Both small and large ventures tend to fall typically during this period.

Ultimately, at such a moment the business borrowers and consumers are the ones who tend to determine the level of interests they are opting to pay for the borrowed money.

Ways the government could eliminate the interaction of inflation with the tax system:

There is often a greater interaction between the tax systems and interaction. This is due to a major binding factor between them that touches on the aspect of the amount of revenue that can be collected due to inflations (Schwartzman, 1992). The governments have since been taking advantage of inflation through collection of greater revenue amounts. So the interactions between these two variables can simply be done through the perspective of setting up an economic equilibrium, as well as the aspect of devising standard guidelines for governing the entire tax system.

References

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