

Financial management assignments 1-4



**ASSIGN
BUSTER**

What was the growth rate for Real GDP for the 2nd Quarter, What is the growth rate for Real GDP projected for Define and indicate the significance of Real GDP. Figure 1: United States GDP Growth rate It is evident from the above graph that the growth rate for real GDP in the 2nd quarter was at 1.7% (US GDP Growth rate, 2010). While the growth rate for real GDP estimated was 3.2%. Significance of Real GDP: Real GDP is the linchpin of the economy and indicates how much value (wealth) is produced by an economy over a particular period. It determines the health of the economy and can provide significant information about the performance of the industries operating in the economy. It is an indispensable tool for the economists, investors and analysts to measure the well-being of an economy. Real GDP is different from nominal GDP as it takes into account the inflation, thus producing a better scale of measurement. 2) Define and indicate the significance of the LIBOR. What was the LIBOR at the time you completed the assignment? LIBOR is the London Interbank Offered Rate and it is the rate at which the most creditworthy banks lend funds to each other. It is considered as a benchmark rate in the major countries of the world such as US, UK and Canada. LIBOR is considered as of paramount importance in the corporate world because when the LIBOR increases it creates a financial panic, which tightens the flow of credit and erodes the trust between the banks for their ability to pay each other. In addition to that, all the credit loans such as credit card, mortgages and student loans are dependent on LIBOR therefore it has a direct impact on the consumers. It is estimated that \$360 trillion of international financial products are based on LIBOR (Reynolds, 2010). Current LIBOR LIBOR 1-Month 3-Months 6 Months 0.26% 0.31% 0.46% Source: LIBOR, other interest rate indexes (Bankrate.com) 3)

Define and indicate the significance of the prime rate. What was the prime rate at the time you completed the assignment? In the banking system, prime rate is used as a benchmark rate to price short term loan products for the trustworthy customers. The significance of a prime rate can be recognized by the fact that when a small or medium enterprise approaches a financial institution in order to borrow funds to invest in his business for purchasing capital equipments. If he is a creditworthy customer than most probably he will be charged the prime rate. Prime rate is not for borrowing or lending among the financial institutions but it is the rate which is charged to non-financial institutions. The current prime rate is 3.25% (Prime Rate, 2010)

4) Define and indicate the significance of the federal funds rate. What was the federal funds rate at the time you completed the assignment? The federal funds rate also called as the discount rate is used to control the monetary system of the economy. It is the rate that banks charge on overnight loans to each other to meet their reserve balances. Fed rate are the most significant rates since they directly impact LIBOR and prime rate and it is the tool through which government can tighten or relax the monetary policy. Current Fed Rate: The current fed rate is 0.25%
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