

# Interest Rates Word Search

Answer Key

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## ■ 10 Terms & Definitions

<p><b>FEDERAL</b></p> <p>The Federal Reserve (the Fed) is the central bank of the United States, responsible for setting monetary policy and managing interest rates. The Fed's Federal Open Market Committee (FOMC) meets eight times per year to set the federal funds rate — the benchmark interest rate that</p>	<p><b>YIELD</b></p> <p>Yield is the income return on an investment, expressed as a percentage of the investment's current price. For bonds, yield is inversely related to price — when bond prices fall, yields rise. The yield curve plots yields across different bond maturities and is one of the most impo</p>
<p><b>DURATION</b></p> <p>Duration measures how sensitive a bond or bond fund is to changes in interest rates. A bond with a duration of 8 years will lose approximately 8% in value for every 1% rise in interest rates. Conversely, it will gain about 8% for every 1% fall in rates. Long-duration bonds (10+ y</p>	<p><b>COUPON</b></p> <p>A coupon is the fixed annual interest payment made by a bond issuer to bondholders. The coupon rate is set at issuance and is expressed as a percentage of the bond's face value. A \$1,000 bond with a 5% coupon pays \$50 per year, typically in two \$25 semiannual installments. The co</p>
<p><b>INFLATION</b></p> <p>Inflation is the rate at which the general price level of goods and services rises, eroding purchasing power. Interest rates and inflation are deeply linked: the Federal Reserve raises rates to fight inflation (making borrowing expensive slows spending) and cuts rates to stimulat</p>	<p><b>PRIME</b></p> <p>The prime rate is the benchmark interest rate that US commercial banks charge their most creditworthy corporate customers. It is directly tied to the federal funds rate — typically set at 3% above the fed funds rate. The prime rate serves as the baseline for many consumer lending</p>
<p><b>MORTGAGE</b></p> <p>A mortgage is a loan used to purchase real estate, secured by the property itself. Mortgage rates are heavily influenced by the 10-year US Treasury yield and Federal Reserve policy. Fixed-rate mortgages lock in a rate for 15 or 30 years; adjustable-rate mortgages (ARMs) reset per</p>	<p><b>DISCOUNT</b></p> <p>The discount rate is the interest rate the Federal Reserve charges banks for short-term loans from the Fed's "discount window." It is also used more broadly in finance as the rate applied to future cash flows to calculate their present value. A higher discount rate makes future e</p>
<p><b>TREASURY</b></p> <p>US Treasury securities are debt instruments issued by the federal government to finance its operations. They are backed by the full faith and credit of the US government and are considered the world's safest investment. Treasuries come in short-term (T-Bills, under 1 year), mediu</p>	<p><b>REAL</b></p> <p>The real interest rate is the nominal interest rate adjusted for inflation. It represents the true purchasing power gain (or loss) from an investment. If a savings account pays 5% but inflation is 3%, the real rate is 2% — your purchasing power grows modestly. If inflation exceed</p>