|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. The power to create money is given by the Constitution to the Federal Reserve.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. ​Since M‑2 excludes time deposits, M-2 is a less comprehensive measure of the money supply than M‑1.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. When individuals withdraw cash from checking accounts, the money supply is unaffected.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. The yield curve relates risk and interest rates.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. During most historical periods, the yield curve has been positively sloped.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. What serves for money in France may not be money in another country.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. The U.S. Treasury creates most of the nation's money supply.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. When individuals deposit cash in a demand deposit, the money supply is reduced.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. M‑1 includes savings accounts in commercial banks.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. ​A financial intermediary transfers funds from borrowers to lenders by creating claims on itself.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. When cash is deposited in a checking account, the reserves of commercial banks are increased.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. When funds are deposited in a savings account, the excess reserves of banks are unaffected.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. Large certificates of deposit in units of $500,000 are insured by FDIC.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. ​In general, banks prefer loans that stress liquidity and safety.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. Insurance companies are a major source of loans to individuals.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 16. ​Money market mutual funds invest in short-term securities like U.S. Treasury bills.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 17. An increase in interest rates tends to reduce the earnings of money market mutual funds.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. A pension plan that invests in the stock of IBM or Verizon does not perform the function of a financial intermediary.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 19. Investments in money market mutual funds are insured up to $100,000 by the federal government.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20. A financial intermediary creates claims on itself, when it accepts depositors' funds.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 21. M‑1 includes coins, currency, and             .​   |  |  |  | | --- | --- | --- | |  | a. | ​demand deposits | |  | b. | ​savings accounts | |  | c. | ​certificates of deposit | |  | d. | ​time deposits |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. The power to create money is given by the Constitution to​   |  |  |  | | --- | --- | --- | |  | a. | ​state governments | |  | b. | ​Congress | |  | c. | ​the Federal Reserve | |  | d. | ​commercial banks |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 23. The term structure of interest rates relates​   |  |  |  | | --- | --- | --- | |  | a. | ​risk and yields | |  | b. | ​yields and credit ratings | |  | c. | ​term and yields | |  | d. | ​stock and bond yields |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. The term structure of interest rates indicates the​   |  |  |  | | --- | --- | --- | |  | a. | ​relationship between risk and yields | |  | b. | ​relationship between the time and yields | |  | c. | ​the difference between borrowing and lending | |  | d. | ​the difference between the yield (interest rate) on government and corporate debt |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 25. Money serves as​   |  |  |  | | --- | --- | --- | |  | a. | ​a substitute for equity | |  | b. | ​a precaution against inflation | |  | c. | ​a medium of exchange | |  | d. | ​a risk-free liability |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 26. M‑2 includes​  1. demand deposits  2. savings accounts  3. small certificates of deposit   |  |  |  | | --- | --- | --- | |  | a. | ​1 and 2 | |  | b. | ​2 and 3 | |  | c. | ​1 and 3 | |  | d. | ​all three |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 27. Which of the following is not a financial intermediary?   |  |  |  | | --- | --- | --- | |  | a. | ​New York Stock Exchange | |  | b. | ​Washington Savings and Loan | |  | c. | ​First National City Bank | |  | d. | ​Merchants Savings Bank |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. The assets of a typical commercial bank include   |  |  |  | | --- | --- | --- | |  | a. | ​commercial loans | |  | b. | ​demand deposits | |  | c. | ​common stock | |  | d. | ​equity |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. Federally insured investments include​   |  |  |  | | --- | --- | --- | |  | a. | ​savings accounts in national commercial banks | |  | b. | ​certificates of deposit in excess of $500,000 | |  | c. | ​life insurance policies | |  | d. | ​commercial bank assets |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. The primary assets of life insurance companies include​   |  |  |  | | --- | --- | --- | |  | a. | ​life insurance | |  | b. | ​corporate securities | |  | c. | ​municipal securities | |  | d. | ​insurance policies |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. ​A pension plan that grants mortgage loans   |  |  |  | | --- | --- | --- | |  | a. | ​is an example of a financial intermediary | |  | b. | ​cannot suffer losses | |  | c. | ​is called a savings and loan association | |  | d. | ​is not a financial intermediary |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 32. ​Money market mutual funds invest in   |  |  |  | | --- | --- | --- | |  | a. | ​corporate bonds | |  | b. | ​corporate stock | |  | c. | ​federal government Treasury bills | |  | d. | ​federal government Treasury bonds |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 33. ​A financial intermediary transfers   |  |  |  | | --- | --- | --- | |  | a. | savings to households​ | |  | b. | ​savings to borrowers | |  | c. | ​stocks to brokers | |  | d. | ​new stock issues to buyers |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 34. ​Treasury bills are   |  |  |  | | --- | --- | --- | |  | a. | ​long-term securities issued by the federal government | |  | b. | ​short-term securities issued by the federal government | |  | c. | ​long-term securities issued by money market mutual funds | |  | d. | ​short-term securities issued by money market mutual funds |  |  |  | | --- | --- | | *ANSWER:* | b | |