|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. The power to create money is given by the Constitution to the Federal Reserve.​

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. M‑2 includes​1. demand deposits2. savings accounts3. 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. The assets of a typical commercial bank include

|  |  |  |
| --- | --- | --- |
|   | a.  | ​commercial loans |
|   | b.  | ​demand deposits |
|   | c.  | ​common stock |
|   | d.  | ​equity |

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. The primary assets of life insurance companies include​

|  |  |  |
| --- | --- | --- |
|   | a.  | ​life insurance |
|   | b.  | ​corporate securities |
|   | c.  | ​municipal securities |
|   | d.  | ​insurance policies |

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |