Basic Finance 13th edition Mayo Test Bank

SKU: 9780357714744-TEST-BANK

Name:_____ Class:_____ Date:_____

Chapter 02: The Role of Financial Markets and Financial Intermediaries

True / False

1. The power to create money is given by the Constitution to the federal government.
   a. True
   b. False
ANSWER: True

2. Since M2 excludes time deposits, M2 is a less comprehensive measure of the money supply than M1.
   a. True
   b. False
ANSWER: False

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

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

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

6. What serves for money in France may not necessarily be money in another country.
   a. True
   b. False
ANSWER: True

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

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

9. M1 includes savings accounts in commercial banks.
   a. True
   b. False

Copyright Cengage Learning. Powered by Cognero.

TBEXAM.COM

Basic Finance 13th edition Mayo Test Bank

TBEXAM.COM - THE WORLD'S LARGEST TEST BANK AND SOLUTIONS DATABASE WITH UNBEATABLE RATES

Name:_____ Class:_____ Date:_____

Chapter 02: The Role of Financial Markets and Financial Intermediaries

ANSWER: True

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

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

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

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

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

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

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

18. A pension plan that invests in the stock of IBM or Verizon performs the function of a financial intermediary.
    a. True
    b. False

Copyright Cengage Learning. Powered by Cognero.

TBEXAM.COM

TBEXAM.COM - THE WORLD'S LARGEST TEST BANK AND SOLUTIONS DATABASE WITH UNBEATABLE RATES

Basic Finance 13th edition Mayo Test Bank

Name:_____ Class:_____ Date:_____

Chapter 02: The Role of Financial Markets and Financial Intermediaries

ANSWER: False

19. A financial intermediary creates claims on itself when it accepts depositors' funds.
    a. True
    b. False

ANSWER: True

Multiple Choice

20. M1 includes coins, currency, and
    a. demand deposits.
    b. savings accounts.
    c. certificates of deposit.
    d. time deposits.

ANSWER: a

21. 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

22. 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

23. The term structure of interest rates indicates the
    a. relationship between risk and yields.
    b. relationship between the time and yields.
    c. difference between borrowing and lending.
    d. difference between the yield (interest rate) on government and corporate debt.

ANSWER: b

24. Money serves as a
    a. substitute for equity.
    b. precaution against inflation.
    c. medium of exchange.
    d. risk-free liability.

ANSWER: c

Copyright Cengage Learning. Powered by Cognero.

TBEXAM.COM

TBEXAM.COM - THE WORLD'S LARGEST TEST BANK AND SOLUTIONS DATABASE WITH UNBEATABLE RATES

Basic Finance 13th edition Mayo Test Bank

Name:_____ Class:_____ Date:_____

Chapter 02: The Role of Financial Markets and Financial Intermediaries

25. M2 includes coins and currency in circulation outside of banks as well as
    a. demand deposits and savings accounts.
    b. savings accounts and small certificates of deposit.
    c. demand deposits and small certificates of deposit.
    d. demand deposits, savings accounts, and small certificates of deposit.

ANSWER: d

26. 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

27. The assets of a typical commercial bank include
    a. commercial loans.
    b. demand deposits.
    c. common stock.
    d. equity.

ANSWER: a

28. 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

29. The primary assets of life insurance companies include
    a. life insurance.
    b. corporate securities.
    c. municipal securities.
    d. insurance policies.

ANSWER: b

30. A pension plan that grants mortgage loans is
    a. an example of a financial intermediary.
    b. acting in good faith as a fiduciary.
    c. called a savings and loan association.
    d. not a financial intermediary.

ANSWER: a

31. Money market mutual funds invest in
    a. corporate bonds.

Copyright Cengage Learning. Powered by Cognero.

T B E X A M . C O M

TBEXAM.COM - THE WORLD'S LARGEST TEST BANK AND SOLUTIONS DATABASE WITH UNBEATABLE RATES

Basic Finance 13th edition Mayo Test Bank

Name:_____ Class:_____ Date:_____

Chapter 02: The Role of Financial Markets and Financial Intermediaries

b. corporate stock.
c. federal government Treasury bills.
d. federal government Treasury bonds.

ANSWER: c

32. A financial intermediary transfers
a. savings to households.
b. savings to borrowers.
c. stocks to brokers.
d. new stock issues to buyers.

ANSWER: b

33. Which of the following statements accurately describes Treasury bills?
a. They are long-term securities issued by the federal government.
b. They are short-term securities issued by the federal government.
c. They are long-term securities issued by money market mutual funds.
d. They are short-term securities issued by money market mutual funds.

ANSWER: b

34. A family member of yours has passed away and left you a rather large inheritance. Which of the following is an example of a direct way to transfer your funds to a user?
a. You could start your own business using the money as an initial investment.
b. You could purchase stocks directly on the over-the-counter market.
c. You could purchase stocks directly on a secondary exchange like the NYSE.
d. You could purchase money market funds.

ANSWER: a

35. As a risk-adverse individual, you are looking to place your savings in an institution that has the ability to give higher returns with low risk while maintaining reasonable liquidity. Which of the following would you choose?
a. A savings account at a commercial bank
b. A savings account at a thrift institution
c. A certificate of deposit from a bank
d. A stock purchase from an investment firm

ANSWER: b

36. You are working as a financial analyst for a local Savings & Loan bank. Suppose that under the current law, you are required to hold a 10% required reserve. A new deposit comes in of $1,000. In order to fulfill the requirement, you decide to purchase $150 in Treasury bills. Would this be a correct way of fulfilling the requirement?
a. Yes, as the requirement of $100 minimum is met.
b. No, as there must be at least $100 in either cash or Federal Reserve deposits.
c. No, as the requirement is $100 and not $150.
d. No, as money market securities are forbidden in any type of reserve.

ANSWER: b

37. As a wealthy individual, you have $395,000 in liquid cash assets in your checking account. The bank that is holding

Copyright Cengage Learning. Powered by Cognero.

TBEXAM.COM - THE WORLD'S LARGEST TEST BANK AND SOLUTIONS DATABASE WITH UNBEATABLE RATES
Basic Finance 13th edition Mayo Test Bank

Name:_____ Class:_____ Date:_____

your funds took some very risky positions in the assets that it held and, due to investment loss, has now become insolvent. It has filed for bankruptcy. Fortunately, your account was FDIC-insured. What is the likely result of this?

a. You will lose all of the funds, as checking accounts are covered under the FDIC.
b. You will be fully reimbursed, as FDIC covers up to $500,000.
c. You will not be fully reimbursed, as FDIC covers only up to $250,000.
d. You will be fully reimbursed, as FDIC covers up to $1,000,000.

ANSWER: c

Subjective Short Answer

38. As a relationship builder for the bank at which you work, it is important for you to competitively attempt to obtain investments and funds from other institutions. Why is this vital to your business model?

ANSWER: Because commercial banks are only able to lend out what has been lent to them, in order to write interest-bearing loans, it is necessary to have the funds to do so.

TBEXAM.COM

Copyright Cengage Learning. Powered by Cognero.

TBEXAM.COM - THE WORLD'S LARGEST TEST BANK AND SOLUTIONS DATABASE WITH UNBEATABLE RATES

Basic Finance 13th edition Mayo Test Bank