Money Banking and Financial Markets 6th edition Cecchetti Test Bank

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Money Banking and Financial Markets 6th Edition by Cecchetti CH01

ANSWERS ARE LOCATED IN THE SECOND PART OF THIS DOCUMENT

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

1) Identify which item is *not* one of the six parts of the financial system.

1) _____

A) financial markets
B) central banks
C) credit cards
D) financial institutions

Question Details
Difficulty : 01 Easy
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

2) The current mission of which one of the six parts of the financial system involves serving the public at large?

2) _____

A) financial markets
B) central banks
C) credit cards
D) financial institutions

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Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

3) Which one of the following is the central bank of the United States?

3) _____

A) the Bank of America
B) the Federal Reserve System
C) the U.S. Treasury
D) Citibank

Question Details
Difficulty : 01 Easy
Learning Objective : 01-01 List and explain the six parts of the financial system.
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4) An important way that central banks have changed over time is to provide more

4) _____

A) risk.
B) money.
C) transparency.
D) regional reserve banks.

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Topic : The Six Parts of the Financial System
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5) More of which one of the following is an important key to the financial system?

5) _____

A) risk
B) information
C) asymmetric trading
D) money

Question Details
Difficulty : 01 Easy
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
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6) Banks and insurance companies are examples of

6) _____

A) central banks.
B) regulatory agencies.
C) financial institutions.
D) financial instruments.

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Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

7) Which part of the financial system is used to transfer risk to those who are best equipped to bear it?

7) _____

A) central banks
B) regulatory agencies
C) financial institutions
D) financial instruments

Question Details
Difficulty : 01 Easy
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

8) Which part of the financial system provides oversight through enforcement of rules?

8) _____

A) central banks
B) regulatory agencies
C) financial institutions
D) financial instruments

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Question Details
Difficulty : 01 Easy
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Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

9) Which of the following is *not* one of the five core principles of money and banking?

9) _____

A) Risk requires compensation.
B) Time has value.
C) Information is the basis for decisions.
D) Stability creates risk.

Question Details
Difficulty : 01 Easy
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Accessibility : Screen Reader compatible

10) Investing in financial instruments in today's economy:

10) _____

A) is an activity practiced only by the wealthy.
B) involves costly transactions.
C) requires a sum of money larger than $100,000 to invest.
D) is made easier by the use of mutual funds.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

11) Which of the following is an example of a financial market?

11) _____

A) a local coffeehouse where people regularly buy and sell financial instruments.
B) a bank that only accepts deposits and issues loans.
C) an electronic network used for buying and selling textbooks.
D) a central bank used for raising taxes and borrowing on behalf of the government.

Question Details
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

12) Why would a new home buyer be required to purchase fire insurance before a broker transfers funds to the seller?

12) _____

A) Risk requires compensation.
B) This provides information to the lender increasing the likelihood that the loan will be repaid.
C) Well-developed financial markets promote economic growth.
D) Increasing the use of banking services provides stability in the macroeconomy.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

13) The statement "risk requires compensation" implies that people

13) _____

A) do not take risk.
B) only accept risk when they absolutely have to.
C) will only accept risk when they are rewarded for doing so.
D) avoid risk at all cost.

Question Details
Difficulty : 01 Easy
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
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Accessibility : Screen Reader compatible

14) Mutual funds have

14) _____

A) been created for very wealthy individuals with a lot of money to invest.
B) increased the risks associated with constructing a portfolio.
C) reduced the costs associated with gathering information on stocks and bonds.
D) increased the transactions costs associated with participating in financial markets.

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Question Details
AACSB : Reflective Thinking
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Learning Objective : 01-02 Identify the five core principles of money and banking.
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Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

15) Which one of the following types of action by a central bank could improve the welfare of a society?

15) _____

A) serving the interests of government rather than the public at large
B) promoting regulations to slow economic growth
C) controlling prices to allocate resources in support of government objectives
D) helping to reduce the volatility of business cycles

Question Details
Learning Objective : 01-01 List and explain the six parts of the financial system.
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Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

16) In the United States, control of the quantity of money is given to the

16) _____

A) president.
B) Federal Reserve System.
C) Bureau of Printing and Engraving.
D) Department of the Treasury.

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Accessibility : Screen Reader compatible

17) Financial instruments can transfer

17) _____

A) neither resources nor risk between people.
B) resources between people but not risk.
C) both resources and risk between people.
D) risk but not resources between people.

Question Details
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

18) Financial markets

18) _____

A) lower the cost and increase the speed of buying and selling financial instruments.
B) increase the speed of buying and selling, but they also increase the cost since people are earning fees for these transactions.
C) are a good example of unregulated markets.
D) today offer fewer instruments than they did in the past.

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Question Details
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AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

19) Which one of the following parts of the financial system is responsible for making sure that the elements of the system operate in a safe and reliable manner?

19) _____

A) financial markets
B) money
C) financial institutions
D) regulatory agencies

Question Details
Difficulty : 01 Easy
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

20) The New York Stock Exchange is an example of a

20) _____

A) financial instrument.
B) financial institution.
C) financial market.
D) bank.

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Difficulty : 01 Easy
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Bloom's : Remember
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

21) When an individual obtains a car loan and makes all of the regular monthly payments, the sum of the payments made will exceed the purchase price of the car. This is due primarily to which core principle?

21) _____

A) Risk requires compensation.
B) Information is the basis for decisions.
C) Markets determine prices and allocate resources.
D) Time has value.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

22) Car insurance shelters drivers from the possibility of losing all their wealth in the event that they cause an accident in which someone is seriously injured. This best illustrates which core principle?

22) _____

Money Banking and Financial Markets 6th edition Cecchetti Test Bank

A) Risk requires compensation.
B) Information is the basis for decisions.
C) Markets determine prices and allocate resources.
D) Time has value.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

23) A central bank's pursuit of policies that control inflation and reduce business cycle fluctuations best illustrates which core principle?

23) _____

A) Risk requires compensation.
B) Stability improves welfare.
C) Markets determine prices and allocate resources.
D) Time has value.

Question Details
Difficulty : 01 Easy
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Accessibility : Screen Reader compatible

24) Which one of the following provides an economy with a foundation for economic efficiency and economic growth?

24) _____

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A) high levels of risk in investing
B) healthy and constantly evolving financial system
C) government that regulates output markets
D) tax structure that redistributes income

Question Details
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

25) Most financial markets in the United States operate under a system

25) _____

A) without any formal rules or regulations.
B) with many rules and regulations to ensure a fair market.
C) where the rules and regulations depend on the state in which the financial market is located.
D) that is totally controlled by the federal government.

Question Details
Difficulty : 01 Easy
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

26) How do financial institutions evaluate the creditworthiness of potential borrowers?

26) _____

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A) They offer high interest rates because only the best borrowers will be able to afford them.

B) They gather information regarding the borrowers' finances.

C) They do not evaluate creditworthiness because everyone is treated the same.

D) They do not evaluate the creditworthiness because they know the borrower will honor his/her obligation to repay the loan.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

27) Stock prices are

27) _____

A) set by the company issuing the stock.
B) set by the central bank.
C) determined by market transactions.
D) unrelated to the value of the company issuing the stock.

Question Details
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

28) The primary function of central banks is to

28) _____

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A) increase risk and volatility to increase compensation.
B) control inflation, as well as help reduce the size and frequency of business cycle fluctuations.
C) increase the uncertainty that firms face in making investment decisions.
D) eliminate the need for banks to collect financial information.

Question Details
Difficulty : 01 Easy
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

29) The goal of U.S. monetary policy is best described as

29) _____

A) keeping inflation low and stable and growth high and stable.
B) determining the denominations of a country's currency.
C) one of the most important functions of Congress.
D) attempting to keep inflation constant at 0 percent.

Question Details
Difficulty : 01 Easy
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AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

30) Studying money and banking through five core principles is helpful because

30) _____

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A) studies have shown students have a difficult time remembering more than five topics.
B) everything in economics can be reduced to five core principles.
C) money and banking can undergo drastic changes overtime, but the five principles do not.
D) these five principles are understood by everyone.

Question Details
Difficulty : 01 Easy
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Accessibility : Screen Reader compatible

31) The large regulatory change in U.S. financial markets that followed the Great Recession is known as

31) _____

A) Basel III.
B) the Glass-Steagall Act.
C) the Gramm-Leach-Bliley Act.
D) the Dodd-Frank Act.

Question Details
Difficulty : 01 Easy
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

32) In 2010, regulators of many nations agreed on a major update of internationally active banks known as

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32) _____

A) Basel III.
B) the Glass-Steagall Act.
C) the Gramm-Leach-Bliley Act.
D) the Dodd-Frank Act.

Question Details
Difficulty : 01 Easy
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

33) Identify the five core principles of Money and Banking.

Question Details
Difficulty : 01 Easy
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Accessibility : Screen Reader compatible

34) Identify the six parts of the financial system.

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Question Details
Difficulty : 01 Easy
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AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

35) How do the primary functions of financial institutions and regulatory agencies differ in the U.S. financial system?

Question Details
Difficulty : 01 Easy
Learning Objective : 01-01 List and explain the six parts of the financial system.
AACSB : Reflective Thinking
Bloom's : Remember
Accessibility : Keyboard Navigation
Topic : The Six Parts of the Financial System
Accessibility : Screen Reader compatible

36) If the U.S. Supreme Court ruled that states could no longer require people to have auto insurance, do you think most people would cancel their policies? Use one of the five core principles to explain your answer.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
AACSB : Analytical Thinking
Bloom's : Analyze
Difficulty : 03 Hard
Accessibility : Screen Reader compatible

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ESSAY. Write your answer in the space provided or on a separate sheet of paper.

37) How do central banks, like the U.S. Federal Reserve, contribute to the welfare of a society?

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

38) Which core principle(s) could you use to explain why credit card issuers charge such high rates of interest?

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Difficulty : 02 Medium
Bloom's : Understand
AACSB : Analytical Thinking
Accessibility : Screen Reader compatible

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39) Suppose that IBM considers expanding its operations. The expansion will require $400 million for two new factories which the corporation plans to raise by selling stock and bonds. Which of the core principles will come into play as investors decide whether or not to buy the stock and the bonds?

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Difficulty : 02 Medium
AACSB : Analytical Thinking
Bloom's : Analyze
Accessibility : Screen Reader compatible

40) A borrower seeking a mortgage today is often presented with the choice between a mortgage with aninterest rate and monthly payment that stays fixed for the duration of the loan, or a mortgage with aninterest rate and monthly payment that can change as other interest rates change. Typically the interest rate on the fixed-rate mortgage is higher. Having learned the five core principles, does this make sense?

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
AACSB : Analytical Thinking
Bloom's : Analyze
Difficulty : 03 Hard
Accessibility : Screen Reader compatible

Money Banking and Financial Markets 6th edition Cecchetti Test Bank

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41) Why don’t large financial markets arise by themselves?

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Identify the five core principles of money and banking.
Topic : The Five Core Principles of Money and Banking
Difficulty : 02 Medium
Bloom's : Understand
Accessibility : Screen Reader compatible

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Answer Key

Test name: CH01

1) C
2) B
3) B
4) C
5) B
6) C
7) D
8) B
9) D
10) D
11) A
12) B
13) C
14) C
15) D
16) B
17) C
18) A
19) D
20) C
21) D
22) A
23) B
24) B
25) B

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26) B
27) C
28) B
29) A
30) C
31) D
32) A
33) (1) Time has value. (2) Risk requires compensation. (3) Information is the basis for decisions. (4) Markets determine prices and allocate resources. (5) Stability improves welfare.

34) They are: money, financial markets, financial instruments, financial institutions, government regulatory agencies, and central banks.

35) Financial institutions, such as banks, securities firms, and insurance companies, provide a myriad of services, including access to the financial markets andcollection of information about prospective borrowers to ensure they are creditworthy. Regulatory agencies provide wide-ranging financial regulation—rules for the operation of financial institutions and markets, and supervision—oversight through examination and enforcement.

36) Probably not. Auto insurance falls under the principle that risk requires compensation. For most people the additional risk they would face of driving without insurance exceeds the cost of the insurance, so they are better off purchasing auto insurance to reduce their risk.

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37) One of the core principles is that stability improves welfare (primarily by reducing risk). One of the functions of a central bank is to try to get rid of the risk that people cannot get rid of on their own, like the risk that comes from economic fluctuations, volatile price level changes or volatility in economic growth. To whatever degree the central bank can smooth these fluctuations, risk can be reduced and the overall welfare of a society can be improved.

38) You could explain the high rates of interest from three principles. First, risk requires compensation, and certainly the credit card issuers are taking a risk when they let people use the cards. There is a risk that some users may not repay the credit card company. Second, you can also justify it from the principle that time has value. The borrowers are using the issuer's funds, and the issuer needs to be compensated for letting the borrower use these funds. Some borrowers do not repay for considerable periods of time. Third, you could also invoke the principle that people use information in making their decisions. Credit card issuers need to acquire information on each applicant before a card is issued and this process is costly. Unfortunately, the applicants who are denied do not get the card, but those who are approved must help cover the information costs.

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39) The five core principles are: (1) Time has value. (2) Risk requires compensation. (3) Information is the basis for decisions. (4) Markets determine prices and allocate resources. (5) Stability improves welfare. Investors considering buying IBM's stock and bonds would surely have principle #2 in mind; they would assess the risk involved in IBM's expansion and want to be compensated for it. This would clearly involve information (principle #3). Principle #1 would come into play with the bonds; are they 1-year bonds? 5-year bonds? The longer the time period involved, everything else constant, the greater the return investors would require. Principles #4 and #5 are not totally irrelevant here, as investors will rely on markets to price the stocks and bonds and will judge IBM's expansion based on the outlook for the economy as a whole (stability).

40) Yes. The lender is shifting risk to the borrower. The risk here is that the lender agrees to a mortgage at (for example) 6% but then over the life of the loan (which can be 10, 25, even 30 years) interest rates in the market go up, putting the lender in the position of being "stuck" with the 6%. If the rate on the mortgage would change with market rates the lender would not have the risk. But remember, risk requires compensation, so to entice the borrower to take on the added risk the lender provides an inducement in the lower rate. A smart borrower will make the decision about whether or not the lower but changeable rate is a good decision based on information about interest rates (information, stability), and the decision may also depend on how long the borrower plans to live in the house (time).

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41) Large financial markets like the New York Stock Exchange, for example, require rules in order to work properly, as well as authorities to police them. Billions of shares of stock change hands every day, and the markets will not function properly without rules and enforcement. For people to be willing to participate in a market, they must perceive it as fair. This creates an important role for the government. Regulators andsupervisors of the financial system make and enforce the rules, punishing people who violate them. When the government protects investors, financial markets work well andhelp promote economic growth.

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