ECO 223 – Winter 2023 Quiz 2

Date: 3rd May, 2023 Total Marks – 15

Weightage Towards Final Grade – 15% Time: 20 Minutes

Name: ____ Roll Number: ________________

a. Each Question is worth 1.5 points. Wrong answers are -0.5 (negative marking), no answers are 0 points.
b. Please circle the right answer. Each question has **ONLY ONE** right answer.

Answer the following questions:

1. Banks make profits primarily from:
   a. Bonds.
   b. Stock market.
   c. Mutual fund.
   d. None of the above.
2. $100 deposited in an account shows up as both an asset and a liability. It is a liability because it is counted as
   a. Checkable cash
   b. Loanable cash
   c. Checkable deposits.
   d. Loanable deposits
3. Which of these are correct:
   a. $EM = \frac{Net\ Profit\ after\ taxes}{assets}$
   b. $EM = \frac{Equity\ Capital}{Assets}$
   c. $\boldsymbol{EM = \frac{ROE}{ROA}}$
   d. Both b and c
4. Managing interest rate risk is important for
   a. Long term CDs
   b. Long term loans
   c. Rate sensitive liabilities
   d. Checkable deposits

5. For a given return on assets, low bank capital leads to relatively higher
   a. Higher return on equity
   b. Lower return on equity
   c. Not related.
   d. Depends on rate sensitivity.
6. Lower reserve requirement (rr) enables more
   a. Multiple deposit creation
   b. Mutual funds
   c. Development
   d. None of these are affected by rr
7. $MB = MB_n + BR. BR$ is
   a. Bank reserves

b. Bank rate
c. Bank returns
d. Borrowed reserves

8. "Operations, a shift from deposits to currency will affect the reserves in the banking system." This refers to a change in
   a. This changes monetary base as well.
   b. It does not change monetary base but changes rr
   c. This changes both rr and monetary base
   d. It changes neither.

9. According to the Gordon model. An increase k_e leads to a
   a. Rise in stock prices due to higher expectations
   b. Fall in stock prices due to increased risk
   c. Can rise or fall depending on the reason for rise in k_e.
   d. Has the same effect in terms of direction as change in g.

10. Stock market bubbles may be explained by
    a. Inefficiency
    b. Poor predictions by hedge fund managers
    c. Technology shocks
    d. None of the above.