

Chapter 12

Managing and Pricing Deposit Services

Fill in the Blank Questions

1. A(n) _____ requires the bank to honor withdrawals immediately upon request.
Answer: demand deposit

2. A(n) _____ is an interest bearing checking account and gives the bank the right to insist on prior notice before customer withdrawals can be honored.
Answer: Negotiable order of withdrawal (NOW)

3. A(n) _____ is a short-maturity deposit which pays a competitive interest rate. Only 6 preauthorized drafts per month are allowed and only 3 of these can be by check.
Answer: money market deposit account

4. _____ are designed to attract funds from customers who wish to set aside money in anticipation of future expenditures or financial emergencies.
Answer: Thrift deposits

5. _____ are the stable base of deposited funds that are not highly sensitive to movements in market interest rates and tend to remain with a depository institution.
Answer: Core deposits

6. Some people feel that everyone is entitled access to a minimum level of financial service no matter their income level. This issue is called the issue of _____.
Answer: basic (lifeline) banking

7. _____ is a way of pricing deposit services in which the rate or return or fees charged on the deposit account are based on the cost of offering the service plus a profit margin.
Answer: Cost plus pricing

8. When financial institutions tempt customers by paying postage both ways in bank-by-mail services or by offering free gifts such as teddy bears, they are practicing _____.
Answer: nonprice competition

9. The _____ is the added cost of bringing in new funds.

Answer: marginal cost

10. _____ pricing is where the financial institution sets up a schedule of fees in which the customer pays a low or no fee if the deposit balance stays above some minimum level and pays a higher fee if the balance declines below that minimum level.

Answer: Conditional

11. When a customer is charged a fixed charge per check this is called _____ pricing.
Answer: flat rate

12. When a customer is charged based on the number and kinds of services used, with the customers that use a number of services being charged less or having some fees waived, this is called _____ pricing.

Answer: relationship

13. _____ is part of the new technology for processing checks where the bank takes a picture of the back and the front of the original check and which can now be processed as if they were the original.

Answer: Check imaging

14. A(n) _____ is a thrift account which carries a fixed maturity date and generally carries a fixed interest rate for that time period.

Answer: time deposit

15. A(n) _____ is a conditional method of pricing deposit services in which the fees paid by the customer depend mainly on the account balance and volume of activity.

Answer: deposit fee schedule

16. The _____ was passed in 1991 and specifies the information that institutions must disclose to their customers about deposit accounts.

Answer: Truth in Savings Act

17. The _____ must be disclosed to customers based on the formula of one plus the interest earned divided by the average account balance adjusted for an annual 365 day year. It is the interest rate the customer has actually earned on the account.

Answer: annual percentage yield (APY)

18. A(n) _____ is a retirement plan that institutions can sell which is designed for self-employed individuals.

Answer: Keogh plan

19. Deposit institution location is most important to _____-income consumers.
Answer: low
20. _____-income consumers appear to be more influenced by the size of the financial institution.
Answer: high
21. For decades depository institutions offered one type of savings plan. _____ could be opened with as little as \$5 and withdrawal privileges were unlimited.
Answer: Passbook savings deposits
22. _____CD's allow depositors to switch to a higher interest rate if market rates rise.
Answer: Bump-up
23. _____CD's permit periodic adjustments in promised interest rates.
Answer: Step-up
24. _____CD's allow the depositor to withdraw some of his or her funds without a withdrawal penalty.
Answer: Liquid
25. A(n) _____, which was authorized by Congress in 1997, allows individuals to make non-tax-deductible contributions to a retirement fund that can grow tax free and also pay no taxes on their investment earnings when withdrawn.
Answer: Roth IRA
26. Due to the fact that they may be perceived as more risky, _____ banks generally offer higher deposit rates than traditional banks.
Answer: virtual
27. _____ are accounts in domestic banking institutions where the U.S. Treasury keeps most of their operating funds.
Answer: Treasury Tax and Loan Accounts (TT&L accounts)
28. _____ is a process where merchants and utility companies take the information from a check an individual has just written and electronically debits the individual's account instead of sending the check through the regular check clearing process.
Answer: electronic check conversion

29. On October 28, 2004, _____ became the law, permitting depository institutions to electronically transfer check images instead of the checks themselves.

Answer: Check 21

30. The _____ to the cost plus pricing derives the weighted average cost of all funds raised and is based on the assumption that it is not the cost of each type of deposit that matters but rather the weighted average cost of all funds that matters.

Answer: pooled-funds cost approach

True/False Questions

- T F 31. The volume of core deposits at U.S. banks has been growing in recent years relative to other categories of deposits.

Answer: False

- T F 32. The U.S. Treasury keeps most of its operating funds in TT&L deposits, according to the textbook.

Answer: True

- T F 33. Deposits owned by commercial banks and held with other banks are called correspondent deposits.

Answer: True

- T F 34. The implicit interest rate on checkable deposits equals the difference between the cost of supplying deposit services to a customer and the amount of the service charge actually assessed that customer.

Answer: True

- T F 35. Legally imposed interest-rate ceilings on deposits were first set in place in the United States after passage of the Bank Holding Company Act.

Answer: False

- T F 36. Gradual phase-out of legal interest-rate ceilings on deposits offered by U.S. banks was first authorized by the Glass-Steagall Act.

Answer: False

- T F 37. The contention that there are certain banking services (such as small loans or savings and checking accounts) that every citizen should have access to is usually called socialized banking.

Answer: False

- T F 38. Domestic deposits generate legal reserves.
Answer: True
- T F 39. Excess legal reserves are the source out of which new bank loans are created.
Answer: True
- T F 40. Demand deposits are among the most volatile and least predictable of a bank's sources of funds with the shortest potential maturity.
Answer: True
- T F 41. IRA and Keogh deposits have great appeal for bankers principally because they can be sold bearing relatively low (often below-market) interest rates.
Answer: False
- T F 42. In general, the longer the maturity of a deposit, the lower the yield a financial institution must offer to its depositors because of the greater interest-rate risk the bank faces with longer-term deposits.
Answer: False
- T F 43. The availability of a large block of core deposits decreases the duration of a bank's liabilities.
Answer: False
- T F 44. Interest-bearing checking accounts, on average, tend to generate lower net returns than regular (noninterest-bearing) checking accounts.
Answer: False
- T F 45. Personal checking accounts tend to be more profitable than commercial checking accounts.
Answer: False
- T F 46. NOW accounts can be held by businesses and individuals and are interest bearing checking accounts.
Answer: False
- T F 47. A MMDA is a short term deposit where the bank can offer a competitive interest rate and which allows up to 6 preauthorized drafts per month.
Answer: True

- T F 48. A Roth IRA allows an individual to accumulate investment earnings tax free and also pay no tax on their investment earnings when withdrawn provided the taxpayer follows the rules on this new account.

Answer: True

- T F 49. Competition tends to raise deposit interest costs.

Answer: True

- T F 50. Competition lowers the expected return to a bank from putting its deposits to work.

Answer: True

- T F 51. A bank has full control of its deposit prices in the long run.

Answer: False

- T F 52. Nonprice competition for deposits has tended to distort the allocation of scarce resources in the banking sector.

Answer: True

- T F 53. Deposits are usually priced separately from loans and other bank services.

Answer: True

- T F 54. According to recent Federal Reserve data no-fee savings accounts are on the decline.

Answer: True

- T F 55. According to recent survey information provided by the staff of the Federal Reserve Board the average level of fees on most types of checking and NOW accounts appear to have risen.

Answer: True

- T F 56. The Truth in Savings Act requires a bank to disclose to its deposit customer the frequency with which interest is compounded on all interest-bearing accounts.

Answer: True

- T F 57. Under the Truth in Savings Act customers must be informed of the impact of any early deposit withdrawals on the annual percentage yield they expect to receive from an interest-bearing deposit.

Answer: True

T F 58. The number one factor households consider in selecting a bank to hold their checking account is, according to recent studies cited in this chapter, low fees and low minimum balance.

Answer: False

T F 59. The number one factor households consider in choosing a bank to hold their savings deposits, according to recent studies cited in this chapter, is location.

Answer: False

T F 60. Conditionally free deposits for customers mean that as long as the customers do not go above a certain level of deposits there are no monthly fees or per transaction charges.

Answer: False

T F 61. When a bank temporarily offers higher than average interest rates or lower than average customer fees in order to attract new business they are practicing conditional pricing.

Answer: False

T F 62. Web-centered banks with little or no physical facilities are known as _____ banks

Answer: True

T F 63. The total dollar value of checks paid in the United States has grown modestly in recent years.

Answer: False

T F 64. There are still a number of existing problems with online bill-paying services which has limited the growth.

Answer: True

T F 65. The depository institutions which tend to have the highest deposit yields are credit unions.

Answer: False

T F 66. Urban markets are more responsive to deposit interest rates and fees than rural markets.

Answer: False

T F 67. Research indicates that at least half of all households and small businesses hold their primary checking account at a depository institution situated within 3 miles of their location.

Answer: True

Multiple Choice Questions

68. Deposit accounts whose principal function is to make payments for purchases of goods and services are called:

- A) Drafts
- B) Second-party payments accounts
- C) Thrift deposits
- D) Transaction accounts
- E) None of the above

Answer: D

69. Interest payments on regular checking accounts were prohibited in the United States under terms of the:

- A) Glass-Steagall Act
- B) McFadden-Pepper Act
- C) National Bank Act
- D) Garn-St. Germain Depository Institutions Act
- E) None of the above

Answer: A

70. Money-market deposit accounts (MMDAs), offering flexible interest rates, accessible for payments purposes, and designed to compete with share accounts offered by money market mutual funds, were authorized by the:

- A) Glass-Steagall Act
- B) Depository Institutions Deregulation and Monetary Control Act (DIDMCA)
- C) Bank Holding Company Act
- D) Garn-St.Germain Depository Institutions Act
- E) None of the above

Answer: D

71. The stable and predictable base of deposited funds that are not highly sensitive to movements in market interest rates but tend to remain with the bank are called:

- A) Time deposits
- B) Core deposits
- C) Consumer CDs
- D) Nontransaction deposits
- E) None of the above

Answer: B

72. Negotiable Orders of Withdrawal (NOW) accounts, interest-bearing savings accounts that can be used essentially the same as checking accounts, were authorized by:

- A) Glass-Steagall Act
- B) Depository Institutions Deregulation and Monetary Control Act (DIDMCA)
- C) Bank Holding Company Act
- D) Garn-St. Germain Depository Institutions Act
- E) None of the above

Answer: B

74. A deposit which offers flexible money market interest rates but is accessible for spending by writing a limited number of checks or executing preauthorized drafts is known as a:

- A) Demand deposit
- B) NOW account
- C) MMDAs
- D) Time deposit
- E) None of the above

Answer: C

75. The types of deposits that will be created by the banking system depend predominantly upon:

- A) The level of interest rates
- B) The state of the economy
- C) The monetary policies of the central bank
- D) Public preference
- E) None of the above.

Answer: D

76. The most profitable deposit for a bank is a:

- A) Time deposit
- B) Commercial checking account
- C) Personal checking account
- D) Passbook savings deposit
- E) Special checking account

Answer: B

77. Some people feel that individuals are entitled to some minimum level of financial services no matter what their income level. This issue is often called:

- A) Lifeline banking
- B) Preference banking
- C) Nondiscriminatory banking
- D) Lifeboat banking
- E) None of the above

Answer: A

78. The formula Operating Expense per unit of deposit service + Estimated overhead expense + Planned profit from each deposit service unit sold reflects what deposit pricing method listed below?

- A) Marginal cost pricing
- B) Cost plus pricing
- C) Conditional pricing
- D) Upscale target pricing
- E) None of the above.

Answer: B

79. Using deposit fee schedules that vary deposit prices according to the number of transactions, the average balance in the deposit account, and the maturity of the deposit represents what deposit pricing method listed below?

- A) Marginal cost pricing
- B) Cost plus pricing
- C) Conditional pricing
- D) Upscale target pricing
- E) None of the above.

Answer: C

80. The deposit pricing method that favors large-denomination deposits because services are free if the deposit account balance stays above some minimum figure is called:

- A) Free pricing
- B) Conditionally free pricing
- C) Flat-rate pricing
- D) Upscale target pricing
- E) Marginal cost pricing

Answer: B

81. The federal law that requires U.S. depository institutions to make greater disclosure of the fees, interest rates, and other terms attached to the deposits they sell to the public is called the:

- A) Consumer Credit Protection Act
- B) Fair Pricing Act
- C) Consumer Full Disclosure Act
- D) Truth in Savings Act
- E) None of the above.

Answer: D

82. Depository institutions selling deposits to the public in the United States must quote the rate of return pledged to the owner of the deposit which reflects the customer's average daily balance kept in the deposit. This quoted rate of return is known as the:

- A) Annual percentage rate (APR)
- B) Annual percentage yield (APY)
- C) Daily deposit yield (DDY)
- D) Daily average return (DAR)
- E) None of the above.

Answer: B

83. According to recent studies cited in this book, in selecting a bank to hold their checking accounts household customers rank first which of the following factors?

- A) Safety
- B) High deposit interest rates
- C) Convenient location
- D) Availability of other services
- E) Low fees and low minimum balance.

Answer: C

84. According to recent studies cited in this chapter, in choosing a bank to hold their savings deposits household customers rank first which of the following factors?

- A) Familiarity
- B) Interest rate paid
- C) Transactional convenience
- D) Location
- E) Fees charged.

Answer: A

85. According to recent studies cited in this chapter, in choosing a bank to supply their deposits and other services business firms rank first which of the following factors?

- A) Quality of financial advice given
- B) Financial health of lending institution
- C) Whether loans are competitively priced
- D) Whether cash management and operations services are provided.
- E) Quality of bank officers.

Answer: B

86. A financial institution that charges customers based on the number of services they use and gives lower deposit fees or waives some fees for a customer that purchases two or more services is practicing:

- A) Marginal cost pricing
- B) Conditional pricing
- C) Relationship pricing
- D) Upscale target pricing
- E) None of the above

Answer: C

87. A bank determines from an analysis on its deposits that account processing and other operating expenses cost the bank \$3.95 per month. It has also determined that its non operating expenses on its deposits are \$1.35 per month. The bank wants to have a profit margin which is 10 percent of monthly costs. What monthly fee should this bank charge on its deposit accounts?

- A) \$5.30 per month
- B) \$3.95 per month
- C) \$5.83 per month
- D) \$5.70 per month
- E) None of the above

Answer: C

88. A bank determines from an analysis on its deposits that account processing and other operating expenses cost the bank \$4.45 per month. The bank has also determined that nonoperating expenses on deposits are \$1.15 per month. It has also decided that it wants a profit of \$.45 on its deposits. What monthly fee should this bank charge on its deposit accounts?

- A) \$6.05
- B) \$5.60
- C) \$5.15
- D) \$4.45
- E) None of the above

Answer: A

89. A customer has a savings deposit for 45 days. During that time they earn \$5 in interest and have an average daily balance of \$1000. What is the annual percentage yield on this savings account?

- A) 0.5%
- B) 4.13%
- C) 4.07%
- D) 4.5%
- E) None of the above

Answer: B

90. A customer has a savings account for one year. During that year they earn \$65.50 in interest. For 180 days they have \$2000 in the account for the other 180 days they have \$1000 in the account. What is the annual percentage yield on this savings account.

- A) 6.55%
- B) 3.28%
- C) 4.37%
- D) 8.73%
- E) None of the above

Answer: C

91. If you deposit \$1,000 into a certificate of deposit that quotes you a 5.5% APY, how much will you have at the end of 1 year?

- A) \$1,050.00
- B) \$1,055.00
- C) \$1,550.00
- D) \$1,005.50
- E) None of the above.

Answer: B

92. A bank quotes an APY of 8%. A small business that has an account with this bank had \$2,500 in their account for half the year and \$5,000 in their account for the other half of the year. How much in total interest earnings did this bank make during the year?

- A) \$300
- B) \$200
- C) \$400
- D) \$150
- E) None of the above

Answer: A

93. Conditional deposit pricing may involve all of the following factors except:

- A) The level of interest rates
- B) The number of transactions passing through the account
- C) The average balance in the account
- D) The maturity of the account
- E) All of the above are used

Answer: A

94. Customers who wish to set aside money in anticipation of future expenditures or financial emergencies put their money in

- A) Drafts
- B) Second-party payment accounts
- C) Thrift Deposits
- D) Transaction accounts
- E) None of the above

Answer: C

95. A savings account evidenced only by computer entry for which the customer gets a monthly printout is called:

- A) Passbook savings account
- B) Statement savings plan
- C) Negotiable order of withdrawal
- D) Money market mutual fund
- E) None of the above

Answer: B

96. A traditional savings account where evidenced by the entries recorded in a booklet kept by the customer is called:

- A) Passbook savings account
- B) Statement savings plan
- C) Negotiable order of withdrawal
- D) Money market mutual fund
- E) None of the above

Answer: A

97. An account at a bank that carries a fixed maturity date with a fixed interest rate and which often carries a penalty for early withdrawal of money is called:

- A) Demand deposit
- B) Transaction deposit
- C) Time deposit
- D) Money market mutual deposit
- E) None of the above

Answer: C

98. A time deposit that has a denominations greater than \$100,000 and are generally for wealthy individuals and corporations is known as a:

- A) Negotiable CD
- B) Bump-up CD
- C) Step-up CD
- D) Liquid CD
- E) None of the above

Answer: A

99. A time deposit that is non-negotiable but where the promised interest rate can rise with market interest rates is called a:

- A) Negotiable CD
- B) Bump-up CD
- C) Step-up CD
- D) Liquid CD
- E) None of the above

Answer: B

100. A time deposit that allows for a periodic upward adjustment to the promised rate is called a:

- A) Negotiable CD
- B) Bump-up CD
- C) Step-up CD
- D) Liquid CD
- E) None of the above

Answer: C

101. A time deposit that allows the depositor to withdraw some of his or her funds without a

withdrawal penalty is called a:

- A) Negotiable CD
- B) Bump-up CD
- C) Step-up CD
- D) Liquid CD
- E) None of the above

Answer: D

102. What has made IRA and Keogh accounts more attractive to depositors recently?

- A) Allowing the bank to have FDIC insurance on these accounts
- B) Allowing the fund to grow tax free over the life of the fund
- C) Allowing the depositor to pay no taxes on investment earnings when withdrawn
- D) Requiring banks to pay at least 6% on these accounts to depositors
- E) Increasing FDIC insurance coverage to \$250,000 on these accounts

Answer: E

103. The dominant holder of bank deposits in the U.S. is:

- A) The private sector
- B) State and local governments
- C) Foreign governments
- D) Deposits of other banks
- E) None of the above

Answer: A

104. The deposit pricing method absent of any monthly account maintenance fee or per-transaction fee is called:

- A) Free pricing
- B) Conditionally free pricing
- C) Flat-rate pricing
- D) Marginal cost pricing
- E) Nonprice competition

Answer: A

105. The deposit pricing method that charges a fixed charge per check or per period or both is called:

- A) Free pricing
- B) Conditionally free pricing
- C) Flat-rate pricing
- D) Marginal cost pricing
- E) Nonprice competition

Answer: C

106. The deposit pricing method that focuses on the added cost of bringing in new funds is called:

- A) Free pricing
- B) Conditionally free pricing
- C) Flat-rate pricing
- D) Marginal cost pricing

E) Nonprice competition

Answer: D

107. Prior to Depository Institution Deregulation and Control Act (DIDMCA), banks used _____.

This tended to distort the allocation of scarce resources.

- A) Free pricing
- B) Conditionally free pricing
- C) Flat-rate pricing
- D) Marginal cost pricing
- E) Nonprice competition

Answer: E

108. A customer has a savings deposit for 60 days. During that time they earn \$11 and have an average daily balance of \$1500. What is the annual percentage yield on this savings account?

- A) .73%
- B) 4.3%
- C) 4.5%
- D) 4.7%
- E) None of the above

Answer: C

109. A customer has a savings deposit for 15 days. During that time they earn \$15 and have an average daily balance of \$2200. What is the annual percentage yield on this savings account?

- A) .68%
- B) 16.36%
- C) 16.59%
- D) 17.98%
- E) None of the above

Answer: D

110. A bank determines from an analysis on its deposits that account processing and other operating expenses cost the bank \$4.15 per month. It has also determined that its non operating expenses on its deposits are \$1.65 per month. The bank wants to have a profit margin which is 10 percent of monthly costs. What monthly fee should this bank charge on its deposit accounts?

- A) \$6.38 per month
- B) \$5.80 per month
- C) \$4.57 per month
- D) \$4.15 per month
- E) None of the above

Answer: A

111. A bank has \$200 in checking deposits. Interest and noninterest costs on these accounts are 4%. This bank has \$400 in savings and time deposits with interest and noninterest costs of 8%. This bank has \$200 in equity capital with a cost of 24%. This bank as estimated that reserve requirements, deposit insurance fees and uncollected balances reduce the amount of money

available on checking deposits by 10% and on savings and time deposits by 5%. What is this bank's before-tax cost of funds?

- A) 11.00%
- B) 11.32%
- C) 11.50%
- D) 12.00%
- E) None of the above

Answer: B

112. A bank has \$100 in checking deposits. Interest and noninterest costs on these accounts are 8%. This bank has \$600 in savings and time deposits with interest and noninterest costs of 12%. This bank has \$100 in equity capital with a cost of 26%. This bank has estimated that reserve requirements, deposit insurance fees and uncollected balances reduce the amount of money available on checking deposits by 20% and on savings and time deposits by 5%. What is the bank's before-tax cost of funds?

- A) 13.05%
- B) 13.25%
- C) 15.33%
- D) 19.17%
- E) None of the above

Answer: A

113. A bank has \$500 in checking deposits. Interest and noninterest costs on these accounts are 6%. This bank has \$250 in savings and time deposits with interest and noninterest costs of 14%. This bank has \$250 in equity capital with a cost of 25%. This bank has estimated that reserve requirements, deposit insurance fees and uncollected balances reduce the amount of money available on checking deposits by 15% and on savings and time deposits by 4%. What is the bank's before-tax cost of funds?

- A) 15.00%
- B) 12.75%
- C) 13.42%
- D) 15.74%
- E) None of the above

Answer: C

114. A bank expects to raise \$30 million in new money if it pays a deposit rate of 7%. It can raise \$60 million in new money if it pays a deposit rate of 7.5%. It can raise \$80 million in new money if it pays a deposit rate of 8% and it can raise \$100 million in new money if it pays a deposit rate of 8.5%. This bank expects to earn 9% on all money that it receives in new deposits. What deposit rate should the bank offer on its deposits, if they use the marginal cost method of determining deposit rates?

- A) 7%
- B) 7.5%
- C) 8%
- D) 8.5%
- E) None of the above

Answer: B

115. A bank expects to raise \$30 million in new money if it pays a deposit rate of 7%. It can raise \$60 million in new money if it pays a deposit rate of 7.5%. It can raise \$80 million in new money if it pays a deposit rate of 8% and it can raise \$100 million in new money if it pays a deposit rate of 8.5%. This bank expects to earn 9% on all money that it receives in new deposits. What is the marginal cost of deposits if the bank raises their deposit rate from 7 to 7.5%?

- A) .5%
- B) 7.5%
- C) 8.0%
- D) 9.5%
- E) 10.5%

Answer: C

116. Under the Truth in Savings Act, a bank must inform its customers of the terms being quoted on their deposits. Which of the following is not one of the terms listed?

- A) Loan rate information
- B) Balance computation method
- C) Early withdrawal penalty
- D) Transaction limitations
- E) Minimum balance requirements

Answer: A

117. Which of these Acts is attempting to address the low savings rate of workers in the U.S. by including an automatic enrollment (“default option”) in employees’ retirement accounts?

- A) The Economic Recovery Tax Act of 1981
- B) The Tax Reform Act of 1986
- C) The Tax Relief Act of 1997
- D) The Pension Protection Act of 2006
- E) None of the above

Answer: D

118. Business (commercial) transaction accounts are generally more profitable than personal checking accounts, according to the textbook. Which of the following explain the reasons for this statement:

- A) The average size of the business transaction is smaller than the personal transaction
- B) Lower interest expenses are associated with commercial deposit transaction
- C) The bank receives more investable funds in the commercial deposits transaction
- D) A and B
- E) B and C

Answer: E

119. A bank expects to raise \$30 million in new money if it pays a deposit rate of 7%. It can raise \$60 million in new money if it pays a deposit rate of 7.5%. It can raise \$80 million in new money if it pays a deposit rate of 8% and it can raise \$100 million in new money if it pays a deposit rate of 8.5%. This bank expects to earn 9% on all money that it receives in new deposits. What is the marginal cost of deposits if this bank raises their deposit rate from 7.5% to 8%?

- A) .5%
- B) 7.5%
- C) 8.0%
- D) 9.5%
- E) 10.5%

Answer: D

120. A bank expects to raise \$30 million in new money if it pays a deposit rate of 7%. It can raise \$60 million in new money if it pays a deposit rate of 7.5%. It can raise \$80 million in new money if it pays a deposit rate of 8% and it can raise \$100 million in new money if it pays a deposit rate of 8.5%. This bank expects to earn 9% on all money that it receives in new deposits. What is the marginal cost of deposits if this bank raises their deposit rate from 8% to 8.5%?

- A) .5%
- B) 7.5%
- C) 8.0%
- D) 9.5%
- E) 10.5%

Answer: E

121. A bank expects to raise \$20 million in new money if it pays a deposit rate of 7%. It can raise \$60 million in new money if it pays a deposit rate of 7.5%. It can raise \$100 million in new money if it pays a deposit rate of 8% and it can raise \$120 in new money if it pays a deposit rate of 8.5%. This bank expects to earn 9.5% on all money that it receives in new deposits. What deposit rate should the bank offer on its deposits, if it uses the marginal cost method of determining deposits rates?

- A) 7%
- B) 7.5%
- C) 8%
- D) 8.5%
- E) None of the above

Answer: C

122. A bank expects to raise \$20 million in new money if it pays a deposit rate of 7%. It can raise \$60 million in new money if it pays a deposit rate of 7.5%. It can raise \$100 million in new money if

it pays a deposit rate of 8% and it can raise \$120 in new money if it pays a deposit rate of 8.5%. This bank expects to earn 9.5% on all money that it receives in new deposits. What is the marginal cost of deposits if this bank raises their deposit rate from 8 to 8.5%?

- A) 11%
- B) 8.75%
- C) 7.75%
- D) 7%
- E) .5%

Answer: A

123. A bank expects to raise \$20 million in new money if it pays a deposit rate of 7%. It can raise \$60 million in new money if it pays a deposit rate of 7.5%. It can raise \$100 million in new money if it pays a deposit rate of 8% and it can raise \$120 in new money if it pays a deposit rate of 8.5%. This bank expects to earn 9.5% on all money that it receives in new deposits. What is the marginal cost of deposits if this bank raises their deposit rate from 7.5% to 8%?

- A) 11%
- B) 8.75%
- C) 7.75%
- D) 7%
- E) .5%

Answer: B