Money and Banking

Homework #1

Due on Nov. 15, 2021

1. What are A) money market; B) capital market; C) bond market; D) stock market? Explain the meaning of these terms with at least one example for each.
2. Financial markets promote greater economic efficiency by channeling funds from ________ to ________.
   A) investors; savers
   B) borrowers; savers
   C) savers; borrowers
   D) savers; lenders
   Answer:
3. The price paid for the rental of borrowed funds (usually expressed as a percentage of the rental of $100 per year) is commonly referred to as the
   A) inflation rate.
   B) exchange rate.
   C) interest rate.
   D) aggregate price level.
   Answer:
4. High interest rates might ________ purchasing a house or car but at the same time high interest rates might ________ saving.
   A) discourage; encourage
   B) discourage; discourage
   C) encourage; encourage
   D) encourage; discourage
   Answer:
5. Stock prices are
   A) relatively stable trending upward at a steady pace.
   B) relatively stable trending downward at a moderate rate.
   C) extremely volatile.
   D) unstable trending downward at a moderate rate.
   Answer:
6. A rising stock market index due to higher share prices
   A) increases people's wealth, but is unlikely to increase their willingness to spend.
   B) increases people's wealth and as a result may increase their willingness to spend.
   C) decreases the amount of funds that business firms can raise by selling newly-issued stock.
   D) decreases people's wealth, but is unlikely to increase their willingness to spend.
   Answer:
7. A financial crisis is
   A) not possible in the modern financial environment.
   B) a major disruption in the financial markets.
   C) a feature of developing economies only.

D) typically followed by an economic boom.
Answer:

8. Financial institutions that accept deposits and make loans are called
A) exchanges.
B) banks.
C) over-the-counter markets.
D) finance companies.
Answer:

9. If your nominal income in 2002 was $50,000, and prices doubled between 2002 and 2011, to have the same real income, your nominal income in 2011 must be
A) $50,000.
B) $75,000.
C) $90,000.
D) $100,000
Answer:

10. If real GDP in 2002 is $10 trillion, and in 2003 real GDP is $9.5 trillion, then real GDP growth from 2002 to 2003 is
A) 0.5%.
B) 5%.
C) 0%.
D) -5%.
Answer:

11. If the aggregate price level at time t is denoted by Pt, the inflation rate from time t - 1 to t is defined as
A) $\pi_t = (P_t - P_{t-1}) / P_{t-1}$.
B) $\pi_t = (P_{t+1} - P_{t-1}) / P_{t-1}$.
C) $\pi_t = (P_{t+1} - P_t) / P_t$.
D) $\pi_t = (P_t - P_{t-1}) / P_t$.
Answer:

12. If the CPI is 120 in 1996 and 180 in 2002, then between 1996 and 2002, prices have increased by
A) 180%.
B) 80%.
C) 60%.
D) 50%.
Answer:

13. Every financial market has the following characteristic:
A) It determines the level of interest rates.
B) It allows common stock to be traded.
C) It allows loans to be made.
D) It channels funds from lenders-savers to borrowers-spenders.
Answer:

14. Which of the following can be described as involving direct finance?
A) A corporation issues new shares of stock.
B) People buy shares in a mutual fund.

C) A pension fund manager buys a short-term corporate security in the secondary market.

D) An insurance company buys shares of common stock in the over-the-counter markets.

Answer:

15. Which of the following can be described as involving indirect finance?

A) You make a loan to your neighbor.

B) A corporation buys a share of common stock issued by another corporation in the primary market.

C) You buy a U.S. Treasury bill from the U.S. Treasury.

D) You make a deposit at a bank.

Answer:

16. Securities are ________ for the person who buys them, but are ________ for the individual or firm that issues them.

A) assets; liabilities

B) liabilities; assets

C) negotiable; nonnegotiable

D) nonnegotiable; negotiable

Answer:

17. Which of the following statements about the characteristics of debt and equity is false?

A) They can both be long-term financial instruments.

B) They can both be short-term financial instruments.

C) They both involve a claim on the issuer's income.

D) They both enable a corporation to raise funds.

Answer:

18. Which of the following statements about the characteristics of debt and equities is true?

A) They can both be long-term financial instruments.

B) Bond holders are residual claimants.

C) The income from bonds is typically more variable than that from equities.

D) Bonds pay dividends.

Answer:

19. Long-term debt has a maturity that is

A) between one and ten years.

B) less than a year.

C) between five and ten years.

D) ten years or longer.

Answer:

20. Which of the following is an example of an intermediate-term debt?

A) A thirty-year mortgage.

B) A sixty-month car loan.

C) A six month loan from a finance company.

D) A Treasury bond.

Answer:

21. A financial market in which only short-term debt instruments are traded is called

the ________ market.
A) bond
B) money
C) capital
D) stock
Answer:

22. Equity instruments are traded in the ________ market.
A) money
B) bond
C) capital
D) commodities
Answer:

23. Which of the following instruments are traded in a money market?
A) State and local government bonds.
B) U.S. Treasury bills.
C) Corporate bonds.
D) U.S. government agency securities.
Answer:

24. Financial intermediaries provide customers with liquidity services. Liquidity services
A) make it easier for customers to conduct transactions.
B) allow customers to have a cup of coffee while waiting in the lobby.
C) are a result of the asymmetric information problem.
D) are another term for asset transformation.
Answer:

25. The problem created by asymmetric information before the transaction occurs is called ________, while the problem created after the transaction occurs is called ________.
A) adverse selection; moral hazard
B) moral hazard; adverse selection
C) costly state verification; free-riding
D) free-riding; costly state verification
Answer: