# Đề cuối kỳ Money and Banking - 24/4/2022

Money and Banking (Trường Đại học Ngoại thương)

| FOREIGN TRADE UNIVERSITY<br>HCMC CAMPUS<br>FACULTY OF MANAGEMENT &<br>FINANCE - ACCOUNTING | FINAL EXAM QUESTIONS<br>MONEY AND BANKING (TCH303) |
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| PAPER NO. 1 | Semester: 2 Academic year: 2021 – 2022<br>Full-time/Part-time: Full time<br>Class code: 205<br>Exam Date:........................ Time:....................<br>Form of Exam: Written and Multiple choice<br>Duration: 60 minutes *(excluding paper distribution time)* |

## SECTION A. MULTIPLE CHOICE (4 points)

***There are 20 questions in this exam. Please choose ONE answer for each question. Each question is worth 0.2 points.***

1. Which of the following statements best explains how the use of money in an economy increases economic efficiency?
   A) Money increases economic efficiency because it is costless to produce.
   B) Money increases economic efficiency because it discourages specialization.
   C) Money increases economic efficiency because it decreases transactions costs.
   D) Money cannot have an effect on economic efficiency

2. The evolution of the payments system from barter to precious metals, then to fiat money, then to checks can best be understood as a consequence of
   A) government regulations designed to improve the efficiency of the payments system.
   B) government regulations designed to promote the safety of the payments system.
   C) competition among firms to make it easier for customers to purchase their products.
   D) innovations that reduced the costs of exchanging goods and services.

3. Which of the following $1,000 face-value securities has the highest yield to maturity?
   A) A 5 percent coupon bond selling for $1,000
   B) A 10 percent coupon bond selling for $1,000
   C) A 12 percent coupon bond selling for $1,000
   D) A 12 percent coupon bond selling for $1,100

4. Which of the following are generally true of bonds?
   A) A rise in interest rates is associated with a fall in bond prices, resulting in capital gains on bonds whose terms to maturity are longer than the holding periods.
   B) The only bond whose return equals the initial yield to maturity is one whose time to maturity is the same as the holding period.
   C) The longer a bond's maturity, the smaller is the size of the price change associated with an interest rate change.
   D) Prices and returns for short-term bonds are more volatile than those for longer-term bonds.

5. Everything else held constant, if the expected return on RST stock declines from 12 to 9 percent and the expected return on XYZ stock declines from 8 to 7 percent, then the expected return of holding RST stock ________ relative to XYZ stock and demand for XYZ stock ________.

A) rises; rises

B) falls; rises

C) rises; falls

D) falls; falls

6. If 1-year interest rates for the next three years are expected to be 4, 2, and 3 percent, and the 1-year term premium is 0.5 percent and it increases 0.5 percent every year after that, than the 3-year bond rate will be

A) 3.0 percent.

B) 3.5 percent.

C) 4.0 percent.

D) 4.5 percent.

7. If the yield curve is flat for short maturities and then slopes downward for longer maturities, the liquidity premium theory (assuming a mild preference for shorter-term bonds) indicates that the market is predicting.

A) a rise in short-term interest rates in the near future and a decline further out in the future.

B) constant short-term interest rates in the near future and a decline further out in the future.

C) a decline in short-term interest rates in the near future and a rise further out in the future.

D) a decline in short-term interest rates in the near future and an even steeper decline further out in the future.

8. A sharp stock market decline increases moral hazard incentives

A) since borrowing firms have less to lose if their investments fail.

B) because it is immoral to profit from someone's loss.

C) since lenders are more willing to make loans.

D) reducing uncertainty in the economy and increasing market efficiency.

9. Which of the following are primary concerns of the bank manager?

A) Extending loans to borrowers who will pay low interest rates, but who are poor credit risks

B) Maintaining sufficient reserves to minimize the cost to the bank of deposit outflows

C) Acquiring funds at a relatively high cost, so that profitable lending opportunities can be realized

D) Maintaining high levels of capital and thus maximizing the returns to the owners.

10. Which of the following statements most accurately describes the task of bank asset management?

A) Banks seek the highest returns possible subject to minimizing risk and making adequate provisions for liquidity.

B) Banks seek to have the highest liquidity possible subject to earning a positive rate of return on their operations.

C) Banks seek to prevent bank failure at all cost; since a failed bank earns no profit, liquidity needs supersede the desire for profits.

D) Banks seek to acquire funds in the least costly way.

11. If the required reserve ratio is 10 percent, currency in circulation is $400 billion, checkable deposits are $800 billion, and excess reserves total $0.8 billion, then the money supply is ________ billion.

A) $8000
B) $1200
C) $1400
D) $8400

12. Everything else held constant, in the market for reserves, when the federal funds rate equals the interest rate paid on excess reserves, raising the interest rate paid on excess reserves

A) lowers the federal funds rate.
B) has no effect on the federal funds rate.
C) has an indeterminate effect of the federal funds rate.
D) increases the federal funds rate.

13. If a corporation begins to suffer large losses, then the default risk on the corporate bond will

A) increase and the bond's return will become less uncertain, meaning the expected return on the corporate bond will fall.
B) decrease and the bond's return will become less uncertain, meaning the expected return on the corporate bond will fall.
C) increase and the bond's return will become more uncertain, meaning the expected return on the corporate bond will fall.
D) decrease and the bond's return will become less uncertain, meaning the expected return on the corporate bond will rise.

14. The trend in recent years is that more and more governments

A) have been granting greater independence to their central banks.
B) have been reducing the independence of their central banks to make them more accountable for poor economic performance.
C) have mandated that their central banks focus on controlling inflation.
D) have required their central banks to cooperate more with their Ministers of Finance.

15. An unanticipated decline in the price level increases the burden of debt on borrowing firms but does not raise the real value of borrowing firms' assets. The result is

A) that adverse selection and moral hazard problems are reduced.
B) an increase in the real net worth of the borrowing firm.
C) that net worth in real terms declines.
D) an increase in lending.

16. In emerging market countries, many firms have debt denominated in foreign currency like the dollar or yen. A depreciation of the domestic currency

A) results in an increase in the value of the firm's assets.
B) results in increases in the firm's indebtedness in domestic currency terms, even though the value of their assets remains unchanged.
C) means that the firm does not owe as much on their foreign debt.
D) strengthens their balance sheet in terms of the domestic currency.

17. Bank capital has both benefits and costs for the bank owners. Higher bank capital ________ the likelihood of bankruptcy, but higher bank capital ________ the return on equity for a given return on assets.

A) reduces; reduces
B) increases; increases
C) reduces; increases
D) increases; reduces

18. Debt deflation occurs when

A) rising interest rates worsen adverse selection and moral hazard problems.
B) an economic downturn causes the price level to fall and a deterioration in firms' net worth because of the increased burden of indebtedness.
C) lenders reduce their lending due to declining stock prices (equity deflation) that lowers the value of collateral.
D) corporations pay back their loans before the scheduled maturity date.

19. Assuming initially that required reserve ratio = 15%, c = 40%, and excess reserve ratio = 5%, a decrease in e to 0% causes the M1 money multiplier to ________, everything else held constant.

A) increase from 2.33 to 2.55
B) decrease from 2.55 to 2.33
C) increase from 1.67 to 1.82
D) decrease from 1.82 to 1.67

20. Factors that led to worsening financial market conditions in East Asia in 1997-1998 include

A) a rise in interest rates abroad.
B) unanticipated increases in the price level.
C) weak supervision by bank regulators.
D) increased uncertainty from political shocks.

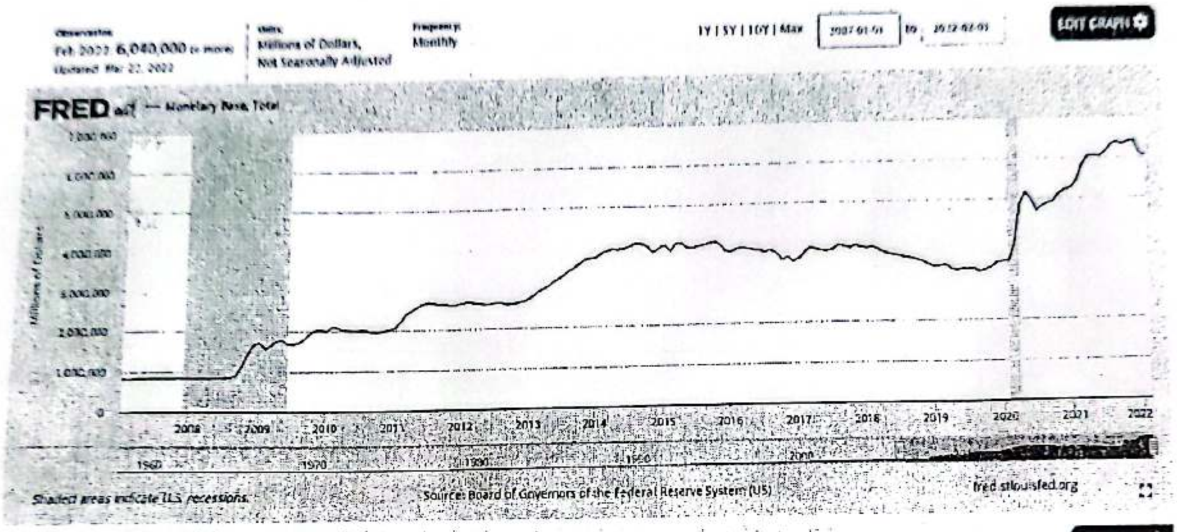
## SECTION B. SHORT QUESTIONS (6 points)

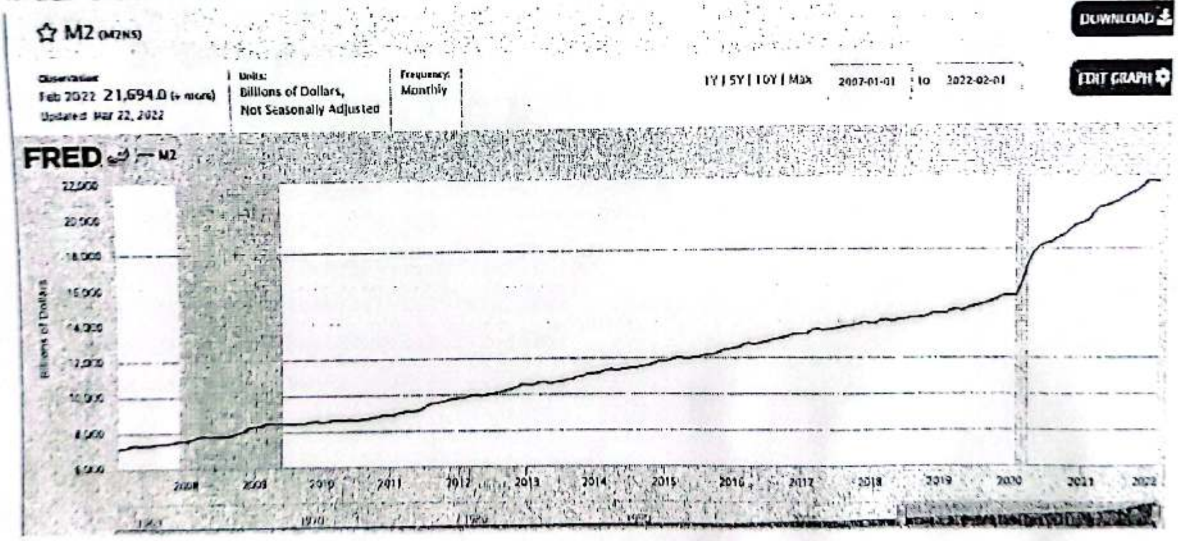
***B1. Answer THREE questions in this section. Each question in this section is worth 1 point.***

1. Using both the liquidity preference framework and the supply and demand for bonds framework, show why interest rates are procyclical (rising when the economy is expanding and falling during recessions).
2. During 2008, the difference in yield (the yield spread) between three-month AA-rated financial commercial paper and three-month AA-rated nonfinancial commercial paper steadily increased from its usual level of close to zero, spiking to over a full percentage point at its peak in October 2008. What explains this sudden increase?
3. What are the benefits and costs for a bank when it decides to increase the amount of its bank capital?
4. Suppose, one morning, the Open Market Trading Desk drastically underestimates the demand for reserves when deciding the quantity of reserves to supply to the market. Based on analysis of the market for bank reserves, explain why the market federal funds rate will not exceed the discount rate regardless of how large the gap between estimated and actual reserve demand.
5. What are the advantages and disadvantages of quantitative easing as an alternative to conventional monetary policy when short-term interest rates are at the zero lower bound?

***B2. CHALLENGING QUESTIONS. Answer TWO questions in this section. Each question in this section is worth 1.5 points.***

6. In the Global Financial Crisis, The Fed's balance sheet has roughly quintupled since the financial crisis, from about $900 billion in 2007 to about $4.5 trillion in 2014. However, inflation was at a very low level. In response to COVID-19, the FED expanded its balance sheet again. The balance sheet increased from $4.7 trillion on March 19, 2020, to $7 trillion on May 20, 2020, and $7.4 trillion at the end of 2020. Inflation, however, hit 8.5 percent in the United States in March 2022, the fastest 12-month pace since 1981. **Explain** why the US did not experience high inflation in the previous QE packages, but experience high inflation now?




7. The **2018 Argentine crisis** was a severe devaluation of the Argentine peso, caused by high inflation and steep fall in the perceived value of the local currency, along with other domestic and international factors (the United States increased interest rates from 0.25% to 1.75% and then 2% - this caused investors to return to the United States, leaving emerging markets). In 2018, the Argentinian central bank raised interest rates to 60% in an effort to prop up its plunging

Emerging ... elasticity → elasticity < 1 → export ↓

currency. This did not placate investors, so the government launched sweeping austerity measures to try to restore confidence. The currency crisis is likely to push the economy into deep recession. It had to ask the IMF for $50bn bail out to bolster its finances.

**Explain** why the crisis in emerging countries normally lead to currency devaluation and high inflation. Why in response to the crisis the central banks and governments in emerging countries may have to raise interest rates and adopt austerity measures, instead of the expansionary monetary and fiscal policies normally observed in developed countries?

**8.** In March 2022, the FED announced the first interest rate increase since 2018, raising the benchmark rate to a range of 0.25% - 0.5%. Traders are pricing in a more than 75% chance that the Fed will lift its key short-term rate from its current range of 0.25% to 0.5% up to 0.75% to 1% when the central bank wraps up its next meeting on May 4 (CNN, April 2022).

**Explain** the possible effects of interest rate hikes to the bond markets, the U.S. and global stock markets and the U.S. economy.

------------------------------------*End of test*------------------------------------

*Note:* - *This paper contains 20 questions from Section A, 08 questions from Section B, 6 pages.*

- *Students are **not allowed** to use materials during the examination.*
- *Invigilators shall not provide further explanation.*