

Midterm III – Econ 2221 – 601
Spring 2018

1. For many years you have been using your local, small-town bank. One day you hear that the bank is about to be purchased by Bank of America. From your vantage point as a retail bank customer, what are the costs and benefits of such a merger? *(LO1)*
2. How did the financial crisis of 2007-2009 affect the degree of concentration in the U.S. banking industry? *(LO1)*
3. An industry with a large number of small firms is usually thought to be highly competitive. Is that supposition true of the banking industry? What are the costs and benefits to consumers of the current structure of the U.S. banking industry? *(LO1)*
4. *What was the main rationale behind the separation of commercial and investment banking activities in the Glass-Steagall Act of 1933? Why was the Act repealed? *(LO1)*
5. Explain what the phrase “too big to fail” means in reference to financial institutions. How did the policy responses to the financial crisis of 2007-2009 affect the too-big-to-fail problem? *(LO1)*
6. Discuss the problems life insurance companies will face as genetic information becomes more widely available. *(LO2)*
7. When the values of stocks and bonds fluctuate, they have an impact on the balance sheets of insurance companies. Why is that impact more likely to be a problem for life insurance companies than for property and casualty companies? *(LO2)*
8. Explain how a bank run can turn into a bank panic. *(LO1)*

9. Current technology allows large bank depositors to withdraw their funds electronically at a moment's notice. They can do so all at the same time, without anyone's knowledge, in what is called a silent run. When might a silent run happen, and why? (LO1)
10. The central bank in the United States is:
- the Bank of America.
 - the Federal Reserve.
 - the U.S. Treasury.
 - the Bank of the United States.
11. The number of central banks that exist in the world today is:
- less than 10.
 - about 250.
 - over 180.
 - over 50 but less than 100.
12. One monopoly that modern central banks have is in:
- regulating other banks.
 - making loans to banks.
 - issuing U.S. Treasury securities.
 - issuing currency.
13. In the U.S. the authority to issue currency is held by:
- the Federal Reserve.
 - the U.S. Treasury.
 - the Office of the Comptroller of the Currency.
 - the U.S. Mint.
14. Monetary policy in the United States is under the control of:
- the U. S. Treasury.
 - the President.
 - the Federal Reserve.
 - the U.S. Senate.
15. The ability to create money means the central bank can control:
- the availability of money and credit in a country's economy.
 - tax revenue.
 - the unemployment rate.
 - government expenditures.
16. Which of the following statements is true?
- Printing currency can be a profitable venture for a government.
 - Printing currency, while necessary, is a losing venture for a government.

- c. Printing too much money usually leads to lower prices.
- d. In the modern economy the amount of money created has no effect on prices.

17. Many governments give their central bank control over issuing currency because:
- a. printing currency can be profitable for a government so government officials may have a strong incentive to print too much.
 - b. having large amounts of currency can lead to lower rates of inflation.
 - c. central banks use the profits from issuing currency to finance their operations.
 - d. the only way to distribute currency to banks is through the central bank.

18. In its role as the bankers' bank, a central bank performs each of the following, except:
- a. providing loans during times of financial distress.
 - b. providing deposit insurance.
 - c. overseeing commercial banks and the financial system.
 - d. managing the payments system.

19. The central bank has the ability to create money; this means it:
- a. can control the availability of money but not the availability of credit in the economy.
 - b. can make loans only when other institutions can.
 - c. can impact the rate of inflation.
 - d. has an objective to maximize its profit.

20. The Federal Reserve was created in:
- a. 1929.
 - b. 1913.
 - c. 1909.
 - d. 1945.

21. The Federal Reserve System is composed of:
- a. five branches with clear responsibilities.
 - b. six branches with overlapping responsibilities.
 - c. three branches with overlapping responsibilities.
 - d. twelve branches with clear responsibilities.

22. Member banks of the Federal Reserve System include:
- a. only nationally chartered banks.
 - b. all state chartered banks with assets exceeding \$100 million.
 - c. nationally chartered banks and state chartered banks that decide to join.
 - d. nationally chartered banks and all state chartered banks.

23. The three branches of the Federal Reserve System include each of the following, except:

- a. the Board of Governors.
- b. the Federal Deposit Insurance Corporation.
- c. the Federal Open Market Committee.
- d. the twelve regional Federal Reserve Banks.

24. Considering state chartered banks:

- a. most elect to join the Federal Reserve System.
- b. those with assets exceeding \$100 million must join the Federal Reserve System.
- c. most elect not to join the system.
- d. only those that join the system must abide by reserve requirements.

25. Prior to 1980:

- a. member banks of the Federal Reserve did not have to hold non-interest-bearing reserve deposits at the Fed.
- b. nonmember banks had to hold non-interest-bearing reserve deposits at the Fed.
- c. nonmember banks did not have to hold non-interest-bearing reserve deposits at the Fed.
- d. all banks, member or not, had to hold reserve deposits at the Fed in a non-interest-bearing account.

26. Currently the requirement of holding a non-interest-bearing reserve account at the Fed must be met by:

- a. all banks, member or not.
- b. only member banks.
- c. member banks and nonmember banks over \$100 million in assets.
- d. only nationally chartered banks.

27. One reason it took so long to have a central bank in the United States is that:

- a. it wasn't needed.
- b. states feared centralization of power.
- c. state currencies worked fine.
- d. all of the answer options are correct.

28. The number of regional Federal Reserve Banks is:

- a. nine.
- b. seven.
- c. five.
- d. twelve.

29. The largest of the regional Federal Reserve Banks is located in:

- a. Washington D.C.
- b. San Francisco since it serves almost one-third of the country.
- c. New York City.
- d. Kansas City.

30. The Federal Reserve Bank of New York is unique from other Reserve banks because it:

- a. is the only regional Bank that serves just one state.
- b. is the only regional Bank located in a financial center.
- c. is where the Federal Reserve System's portfolio is managed.
- d. is the oldest and therefore the largest.

31. The collapse of the Thai currency, the baht, was partially due to:

- a. inaction by the Federal Reserve.
- b. the European Central Bank.
- c. information provided by the central bank of Thailand.
- d. information not provided by the central bank of Thailand.

32. A central bank's balance sheet will categorize the following as liabilities:

- a. currency.
- b. loans.
- c. securities.
- d. foreign exchange reserves.

33. The main asset held by a central bank in its role as the bankers' bank is:

- a. foreign exchange reserves.
- b. currency.
- c. loans.
- d. securities.

34. If the Federal Reserve is to be independent, then the quantity of securities it purchases is determined by:

- a. the Federal Reserve itself.
- b. Congress.
- c. the amount the public does not want to purchase at the going price.
- d. the Treasury.

35. Bonds issued by a foreign government in its own currency would:

- a. not be held by the Fed.
- b. be held by the Fed as part of its securities.
- c. be held by the Fed as part of its foreign exchange reserves.
- d. be held by the Fed as part of its loans.

36. One trait a central bank has over other businesses including banks is that it:

- a. receives all of its funding from the government.
- b. can control the size of its balance sheet.
- c. doesn't have stockholders.
- d. doesn't have a board of directors.

37. When a business purchases a \$25,000 computer system by writing a check, the business's balance sheet will:

- a. show an increase in assets and liabilities of \$25,000.
- b. only show an increase in assets of \$25,000.
- c. only show an increase in liabilities of \$25,000.
- d. still show the same total amount of assets as before the purchase.

38. Consider a \$2 billion open market purchase of U.S. Treasury securities by the Federal Reserve. The Fed's balance sheet will show:

- a. only an increase in the asset of securities of \$2 billion.
- b. only show an increase in the liability of reserves of \$2 billion.
- c. no change in the size of the balance sheet, just the composition of assets will change from cash to securities.
- d. an increase in the asset category of securities and the liability category of reserves by \$2 billion.

39. An open market sale of U.S. Treasury securities by the Fed will cause the Fed's balance sheet to show:

- a. a decrease in the asset of securities and a decrease in the liability of reserves.
- b. an increase in the liability of reserves.
- c. no change in the size of the balance sheet, just the composition of assets will change from securities to cash.
- d. an increase in the asset category of securities and the liability category of reserves.

40. The Fed purchases German bonds from commercial banks. Which of the following best describes the impact on the Fed's and the Banking System's balance sheets resulting from this transaction?

- a. The Fed's assets and liabilities increase, the banking systems assets and liabilities decrease.
- b. The Fed's assets increase and its liabilities increase, for the banking system, the value of assets and liabilities do not change, only the composition of assets changes.
- c. The Fed's assets and liabilities do not change, only the compositions of the assets change. For the banking system, assets and liabilities increase.
- d. The Fed's assets increase and its liabilities decrease, for the banking system, the value of assets and liabilities do not change, only the composition of assets changes.

41. Why is it necessary to distinguish between the target federal funds rate range and the market federal funds rate?

42. Which of the following features would characterize a good monetary policy instrument?

- a. Observable only to monetary policy officials.
- b. Tightly linked to monetary policy objectives.
- c. Controllable and rigid.
- d. Difficult to change.

43. Central banks that have a hierarchical mandate with inflation targeting basically are saying:

- a. hitting the inflation target is the first priority after all other stated objectives are reached.
- b. hitting the inflation target is the only objective.
- c. the inflation target is the second most important goal after economic growth, which is always the most important goal for monetary policymakers.
- d. hitting the inflation target comes first, everything else comes second.

44. The Taylor rule is:

- a. the monetary policy setting formula followed explicitly by the FOMC.
- b. an approximation that seeks to explain how the FOMC sets their target.
- c. an explicit tool used by the ECB but not the Fed.
- d. a rule adopted by Congress to make the Fed's monetary policy more accountable to the public.