TEST BANK

This part of the *Instructor's Manual* presents a test bank of true/false statements, multiple choice questions, and, where appropriate, additional problems. The problems are similar to those in the text and may be used for additional assignments or test questions.

TEST BANK*

Part 1 Financial Institutions

Part 2 Financial Tools

Part 3 Investments

Part 4 Corporate Finance

Part 4 Derivatives

***Note: There are no testbanks for Chapters 1, 22 and 24**

Chapter 2
THE ROLE OF FINANCIAL MARKETS AND FINANCIAL INTERMEDIARIES

TRUE/FALSE

F 1. The power to create money is given by the Constitution to the Federal Reserve.

F 2. Since M-2 excludes time deposits, M-2 is a less comprehensive measure of the money supply than M-1.

T 3. When individuals withdraw cash from checking accounts, the money supply is unaffected.

F 4. The yield curve relates risk and interest rates.

T 5. During most historical periods, the yield curve has been positively sloped.

T 6. What serves for money in France may not be money in another country.

F 7. The U.S. Treasury creates most of the nation's money supply.

F 8. When individuals deposit cash in a demand deposit, the money supply is reduced.

F 9. M-1 includes savings accounts in commercial banks.

F 10. A financial intermediary transfers funds from borrowers to lenders by creating claims on itself.

T 11. When cash is deposited in a checking account, the reserves of commercial banks are increased.

F 12. When funds are deposited in a savings account, the excess reserves of banks are unaffected.

F 13. Large certificates of deposit in units of $500,000 are insured by FDIC.

T 14. In general, banks prefer loans that stress liquidity and safety.

F 15. Insurance companies are a major source of loans to individuals.

T 16. Money market mutual funds invest in short-term securities like U.S. Treasury bills.

F 17. An increase in interest rates tends to reduce the earnings of money market mutual funds.

T 18. A pension plan that invests in the stock of IBM or Verizon does not perform the function of a financial intermediary.

F 19. Investments in money market mutual funds are insured up to $100,000 by the federal government.

T 20. A financial intermediary creates claims on itself, when it accepts depositors' funds.

MULTIPLE CHOICE

a 1. M-1 includes coins, currency, and ____________.
   a. demand deposits
   b. savings accounts
   c. certificates of deposit
   d. time deposits

b 2. The power to create money is given by the Constitution to
   a. state governments
   b. Congress
   c. the Federal Reserve
   d. commercial banks

c 3. The term structure of interest rates relates
   a. risk and yields
   b. yields and credit ratings
   c. term and yields
   d. stock and bond yields

b 4. The term structure of interest rates indicates the
   a. relationship between risk and yields
   b. relationship between the time and yields
   c. the difference between borrowing and lending
   d. the difference between the yield (interest rate) on government and corporate debt

c 5. Money serves as
   a. a substitute for equity
   b. a precaution against inflation
   c. a medium of exchange
   d. a risk-free liability

d 6. M-2 includes
   1. demand deposits
   2. savings accounts
   3. small certificates of deposit
      a. 1 and 2
      b. 2 and 3
      c. 1 and 3
      d. all three

a 7. Which of the following is not a financial intermediary?
   a. New York Stock Exchange
   b. Washington Savings and Loan
   c. First National City Bank
   d. Merchants Savings Bank

a 8. The assets of a typical commercial bank include
   a. commercial loans
   b. demand deposits
   c. common stock
   d. equity

a 9. Federally insured investments include
   a. savings accounts in national commercial banks
   b. certificates of deposit in excess of $500,000
   c. life insurance policies
   d. commercial bank assets

b 10. The primary assets of life insurance companies include
- a. life insurance
- b. corporate securities
- c. municipal securities
- d. insurance policies

a 11. A pension plan that grants mortgage loans
- a. is an example of a financial intermediary
- b. cannot suffer losses
- c. is called a savings and loan association
- d. is not a financial intermediary

c 12. Money market mutual funds invest in
- a. corporate bonds
- b. corporate stock
- c. federal government Treasury bills
- d. federal government Treasury bonds

b 13. A financial intermediary transfers
- a. savings to households
- b. savings to borrowers
- c. stocks to brokers
- d. new stock issues to buyers

b 14. Treasury bills are
- a. long-term securities issued by the federal government
- b. short-term securities issued by the federal government
- c. long-term securities issued by money market mutual funds
- d. short-term securities issued by money market mutual funds