## 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.

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\*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
  - a. relationship between risk and yrelds
  - 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

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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