

- 9) Which of the following can be described as involving indirect finance? 9) _____
 A) You buy shares in a mutual fund.
 B) A corporation buys a short-term security 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 loan to your neighbor.
- 10) The process where financial intermediaries create and sell low-risk assets and use the proceeds to purchase riskier assets is known as 10) _____
 A) risk selling. B) risk sharing. C) risk aversion. D) risk neutrality.
- 11) The primary liabilities of a credit union are 11) _____
 A) commercial loans. B) bonds.
 C) mortgages. D) deposits.
- 12) For a 3-year simple loan of \$10,000 at 10 percent, the amount to be repaid is 12) _____
 A) \$10,030. B) \$10,300. C) \$13,000. D) \$13,310.
- 13) Budgets deficits can be a concern because they might 13) _____
 A) lead to higher bond prices. B) ultimately lead to higher inflation.
 C) lead to lower interest rates. D) lead to a slower rate of money growth.
- 14) An \$8,000 coupon bond with a \$400 coupon payment every year has a coupon rate of 14) _____
 A) 5 percent. B) 8 percent. C) 10 percent. D) 40 percent.
- 15) Financial markets promote economic efficiency by 15) _____
 A) creating inflation.
 B) reducing investment.
 C) channeling funds from savers to investors.
 D) channeling funds from investors to savers.
- 16) Money market mutual fund shares function like 16) _____
 A) currency. B) checking accounts that pay interest.
 C) bonds. D) stocks.
- 17) An equal increase in all bond interest rates 17) _____
 A) decreases the return to all bond maturities by an equal amount.
 B) decreases long-term bond returns more than short-term bond returns.
 C) has no effect on the returns to bonds.
 D) increases the return to all bond maturities by an equal amount.
- 18) The yield to maturity is _____ than the _____ rate when the bond price is _____ its face value. 18) _____
 A) greater; coupon; above B) less; perpetuity; below
 C) greater; perpetuity; above D) greater; coupon; below

- 19) An important function of secondary markets is to _____
 A) make it easier to sell financial instruments to raise funds.
 B) make it easier for governments to raise taxes.
 C) create a market for newly constructed houses.
 D) raise funds for corporations through the sale of securities.
- 20) In the United States, loans from _____ are far _____ important for corporate finance than are securities markets. _____
 A) financial intermediaries; less
 B) government agencies; more
 C) financial intermediaries; more
 D) government agencies; less
- 21) Long-term debt has a maturity that is _____. _____
 A) less than a year.
 B) between five and ten years.
 C) ten years or longer.
 D) between one and ten years.
- 22) 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) interest rate.
 B) aggregate price level.
 C) exchange rate.
 D) inflation rate.
- 23) Financial institutions that accept deposits and make loans are called _____ institutions. _____
 A) contractual savings
 B) depository
 C) investment
 D) underwriting
- 24) A bond that is bought at a price below its face value and the face value is repaid at a maturity date is called a _____
 A) coupon bond.
 B) discount bond.
 C) fixed-payment loan.
 D) simple loan.
- 25) Which of the following bonds would you prefer to be buying? _____
 A) A \$10,000 face-value security with a 10 percent coupon selling for \$9,000
 B) A \$10,000 face-value security with a 7 percent coupon selling for \$10,000
 C) A \$10,000 face-value security with a 9 percent coupon selling for \$10,000
 D) A \$10,000 face-value security with a 10 percent coupon selling for \$10,000
- 26) Federal funds are _____
 A) loans made by the Federal Reserve System to banks.
 B) loans made by banks to each other.
 C) loans made by banks to the Federal Reserve System.
 D) funds raised by the federal government in the bond market.
- 27) The conversion of a barter economy to one that uses money _____
 A) increases efficiency by reducing the need to specialize.
 B) increases efficiency by reducing transactions costs.
 C) increases efficiency by reducing the need to exchange goods and services.
 D) does not increase economic efficiency.
- 28) A discount bond selling for \$15,000 with a face value of \$20,000 in one year has a yield to maturity of _____
 A) 3 percent.
 B) 20 percent.
 C) 25 percent.
 D) 33.3 percent.

- 29) The higher a security's price in the secondary market the _____ funds a firm can raise by selling securities in the _____ market. 29) _____
 A) more; primary B) less; primary
 C) more; secondary D) less; secondary
- 30) If bad credit risks are the ones who most actively seek loans and, therefore, receive them from financial intermediaries, then financial intermediaries face the problem of 30) _____
 A) adverse selection. B) costly state verification.
 C) free-riding. D) moral hazard.
- 31) If a security pays \$110 next year and \$121 the year after that, what is its yield to maturity if it sells for \$200? 31) _____
 A) 9 percent B) 10 percent C) 11 percent D) 12 percent
- 32) When stock prices fall 32) _____
 A) an individual's wealth may decrease and their willingness to spend may decrease.
 B) a business firm will be more likely to sell stock to finance investment spending.
 C) an individual's wealth may decrease but their willingness to spend is not affected.
 D) an individual's wealth is not affected nor is their willingness to spend.
- 33) A disadvantage of _____ is that it is very heavy and hard to transport from one place to another. 33) _____
 A) paper money B) electronic money
 C) fiat money D) commodity money
- 34) Well-functioning financial markets 34) _____
 A) cause inflation. B) produce an efficient allocation of capital.
 C) eliminate the need for indirect finance. D) cause financial crises.
- 35) Of money's three functions, the one that distinguishes money from other assets is its function as a 35) _____
 A) standard of deferred payment. B) unit of account.
 C) medium of exchange. D) store of value.
- 36) If an individual moves money from a small-denomination time deposit to a demand deposit account, 36) _____
 A) M1 stays the same and M2 increases.
 B) M1 increases and M2 stays the same.
 C) M1 increases and M2 decreases.
 D) M1 stays the same and M2 stays the same.
- 37) When an investment bank _____ securities, it guarantees a price for a corporation's securities and then sells them to the public. 37) _____
 A) underwrites B) overwrites C) overtakes D) undertakes
- 38) Banks are important to the study of money and the economy because they 38) _____
 A) are the only important financial institution in the U.S. economy.
 B) channel funds from investors to savers.
 C) have been a source of rapid financial innovation.
 D) create inflation.

- 39) A problem with the yield on discount basis is that it _____ the yield to maturity, and this _____ increases, the _____ the maturity of the discount bond. 39) _____
 A) overstates; overstatement; shorter B) understates; understatement; longer
 C) overstates; overstatement; longer D) understates; understatement; shorter
- 40) The nominal interest rate minus the expected rate of inflation 40) _____
 A) is a less accurate indicator of the tightness of credit market conditions than is the nominal interest rate.
 B) defines the real interest rate.
 C) defines the discount rate.
 D) is a less accurate measure of the incentives to borrow and lend than is the nominal interest rate.
- 41) Economists find no completely satisfactory way to measure money because 41) _____
 A) the "moneyness" or liquidity of an asset is a matter of degree.
 B) economists find disagreement interesting and refuse to agree for ideological reasons.
 C) money supply statistics are a state secret.
 D) the Federal Reserve does not employ or report different measures of the money supply.
- 42) For simple loans, the simple interest rate is _____ the yield to maturity. 42) _____
 A) not comparable to B) less than
 C) greater than D) equal to
- 43) Evidence from business cycle fluctuations in the United States indicates that 43) _____
 A) recessions have been preceded by dollar depreciation.
 B) a negative relationship between money growth and general economic activity exists.
 C) recessions have been preceded by declines in share prices on the stock exchange.
 D) recessions have been preceded by a decline in the growth rate of money.
- 44) If there are five goods in a barter economy, one needs to know ten prices in order to exchange one good for another. If, however, there are ten goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another. 44) _____
 A) 20 B) 25 C) 30 D) 45
- 45) One likely explanation for the relatively high rates of inflation experienced in many Latin American countries is the 45) _____
 A) budget surpluses maintained in these countries.
 B) decline in the prices of basic commodities in these countries.
 C) relatively rapid growth in the money supply in these countries.
 D) relatively slow growth in the money supply in these countries.
- 46) Assume that you borrow \$2000 at 10% annual interest to finance a new business project. For this loan to be profitable, the minimum amount this project must generate in annual earnings is 46) _____
 A) \$400. B) \$201. C) \$200. D) \$199.
- 47) What is the return on a 5 percent coupon bond that initially sells for \$1,000 and sells for \$1,200 next year? 47) _____
 A) 10 percent B) 25 percent C) -5 percent D) 5 percent

- 48) When money prices are used to facilitate comparisons of value, money is said to function as a 48) _____
A) payments–system ruler. B) store of value.
C) unit of account. D) medium of exchange.
- 49) Paper currency that has been declared legal tender but is not convertible into coins or precious 49) _____
metals is called _____ money.
A) commodity B) fiat C) funny D) electronic
- 50) If an individual redeems a U.S. savings bond for currency 50) _____
A) M1 stays the same and M2 decreases.
B) M1 increases and M2 increases.
C) M1 stays the same and M2 stays the same.
D) M1 increases and M2 stays the same.

Answer Key

Testname: EXAM1_SPRING2008

- 1) C
- 2) B
- 3) D
- 4) D
- 5) C
- 6) C
- 7) D
- 8) A
- 9) A
- 10) B
- 11) D
- 12) D
- 13) B
- 14) A
- 15) C
- 16) B
- 17) B
- 18) D
- 19) A
- 20) C
- 21) C
- 22) A
- 23) B
- 24) B
- 25) A
- 26) B
- 27) B
- 28) D
- 29) A
- 30) A
- 31) B
- 32) A
- 33) D
- 34) B
- 35) C
- 36) B
- 37) A
- 38) C
- 39) B
- 40) B
- 41) A
- 42) D
- 43) D
- 44) D
- 45) C
- 46) B
- 47) B
- 48) C
- 49) B
- 50) B

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) If a security pays \$110 next year and \$121 the year after that, what is its yield to maturity if it sells for \$200? 1) _____
A) 9 percent B) 10 percent C) 11 percent D) 12 percent
- 2) The yield to maturity is _____ than the _____ rate when the bond price is _____ its face value. 2) _____
A) less; perpetuity; below B) greater; coupon; above
C) greater; perpetuity; above D) greater; coupon; below
- 3) If there are five goods in a barter economy, one needs to know ten prices in order to exchange one good for another. If, however, there are ten goods in a barter economy, then one needs to know _____ prices in order to exchange one good for another. 3) _____
A) 20 B) 25 C) 30 D) 45
- 4) Assume that you borrow \$2000 at 10% annual interest to finance a new business project. For this loan to be profitable, the minimum amount this project must generate in annual earnings is 4) _____
A) \$400. B) \$201. C) \$200. D) \$199.
- 5) Which of the following bonds would you prefer to be buying? 5) _____
A) A \$10,000 face-value security with a 9 percent coupon selling for \$10,000
B) A \$10,000 face-value security with a 10 percent coupon selling for \$10,000
C) A \$10,000 face-value security with a 7 percent coupon selling for \$10,000
D) A \$10,000 face-value security with a 10 percent coupon selling for \$9,000
- 6) What is the return on a 5 percent coupon bond that initially sells for \$1,000 and sells for \$1,200 next year? 6) _____
A) 25 percent B) -5 percent C) 5 percent D) 10 percent
- 7) When money prices are used to facilitate comparisons of value, money is said to function as a 7) _____
A) payments-system ruler. B) medium of exchange.
C) unit of account. D) store of value.
- 8) Prices and returns for _____ bonds are more volatile than those for _____ bonds, everything else held constant. 8) _____
A) long-term; short-term B) short-term; short-term
C) short-term; long-term D) long-term; long-term
- 9) Federal funds are 9) _____
A) loans made by the Federal Reserve System to banks.
B) loans made by banks to the Federal Reserve System.
C) loans made by banks to each other.
D) funds raised by the federal government in the bond market.

- 10) The _____ is the final amount that will be paid to the holder of a coupon bond. 10) _____
 A) discount value B) coupon value C) face value D) present value
- 11) The process where financial intermediaries create and sell low-risk assets and use the proceeds to purchase riskier assets is known as 11) _____
 A) risk sharing. B) risk selling. C) risk neutrality. D) risk aversion.
- 12) An examination of revised money supply statistics, when compared to the initial statistics, suggests that the initial statistics 12) _____
 A) provide a poor guide of monetary policy because they are usually underestimates of the revised statistics.
 B) do not provide a good guide to short-run movements in the money supply.
 C) are pretty good.
 D) provide a good guide of monetary policy, though they are usually underestimates of the revised statistics.
- 13) In the United States, loans from _____ are far _____ important for corporate finance than are securities markets. 13) _____
 A) government agencies; less B) government agencies; more
 C) financial intermediaries; more D) financial intermediaries; less
- 14) If an individual moves money from a small-denomination time deposit to a demand deposit account, 14) _____
 A) M1 stays the same and M2 stays the same.
 B) M1 stays the same and M2 increases.
 C) M1 increases and M2 decreases.
 D) M1 increases and M2 stays the same.
- 15) To an economist, _____ is anything that is generally accepted in payment for goods and services or in the repayment of debt. 15) _____
 A) credit B) wealth C) money D) income
- 16) A discount bond selling for \$15,000 with a face value of \$20,000 in one year has a yield to maturity of 16) _____
 A) 3 percent. B) 20 percent. C) 25 percent. D) 33.3 percent.
- 17) Which of the following can be described as involving indirect finance? 17) _____
 A) You buy a U.S. Treasury bill from the U.S. Treasury.
 B) You make a loan to your neighbor.
 C) You buy shares in a mutual fund.
 D) A corporation buys a short-term security issued by another corporation in the primary market.
- 18) A professional baseball player may be contractually restricted from skiing. The team owner includes this clause in the player's contract to protect against 18) _____
 A) moral hazard. B) risk sharing.
 C) regulatory circumvention. D) adverse selection.

- 19) One likely explanation for the relatively high rates of inflation experienced in many Latin American countries is the _____
- A) decline in the prices of basic commodities in these countries.
 - B) relatively rapid growth in the money supply in these countries.
 - C) budget surpluses maintained in these countries.
 - D) relatively slow growth in the money supply in these countries.
- 20) Economists find no completely satisfactory way to measure money because _____
- A) economists find disagreement interesting and refuse to agree for ideological reasons.
 - B) the "moneyness" or liquidity of an asset is a matter of degree.
 - C) the Federal Reserve does not employ or report different measures of the money supply.
 - D) money supply statistics are a state secret.
- 21) For a 3-year simple loan of \$10,000 at 10 percent, the amount to be repaid is _____
- A) \$10,030.
 - B) \$10,300.
 - C) \$13,000.
 - D) \$13,310.
- 22) If an individual redeems a U.S. savings bond for currency _____
- A) M1 increases and M2 increases.
 - B) M1 increases and M2 stays the same.
 - C) M1 stays the same and M2 decreases.
 - D) M1 stays the same and M2 stays the same.
- 23) 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) aggregate price level.
 - C) interest rate.
 - D) exchange rate.
- 24) An equal increase in all bond interest rates _____
- A) decreases the return to all bond maturities by an equal amount.
 - B) increases the return to all bond maturities by an equal amount.
 - C) has no effect on the returns to bonds.
 - D) decreases long-term bond returns more than short-term bond returns.
- 25) Of money's three functions, the one that distinguishes money from other assets is its function as a _____
- A) store of value.
 - B) unit of account.
 - C) standard of deferred payment.
 - D) medium of exchange.
- 26) Bonds that are sold in a foreign country and are denominated in a currency other than that of the country in which it is sold are known as _____
- A) country bonds.
 - B) equity bonds.
 - C) foreign bonds.
 - D) Eurobonds.
- 27) When stock prices fall _____
- A) a business firm will be more likely to sell stock to finance investment spending.
 - B) an individual's wealth may decrease and their willingness to spend may decrease.
 - C) an individual's wealth is not affected nor is their willingness to spend.
 - D) an individual's wealth may decrease but their willingness to spend is not affected.
- 28) Long-term debt has a maturity that is _____.
- A) ten years or longer.
 - B) less than a year.
 - C) between five and ten years.
 - D) between one and ten years.

- 29) A bond that is bought at a price below its face value and the face value is repaid at a maturity date is called a _____ 29) _____
 A) simple loan. B) fixed-payment loan.
 C) discount bond. D) coupon bond.
- 30) The higher a security's price in the secondary market the _____ funds a firm can raise by selling securities in the _____ market. 30) _____
 A) more; primary B) less; secondary
 C) less; primary D) more; secondary
- 31) An \$8,000 coupon bond with a \$400 coupon payment every year has a coupon rate of _____ 31) _____
 A) 5 percent. B) 8 percent. C) 10 percent. D) 40 percent.
- 32) The primary purpose of deposit insurance is to _____ 32) _____
 A) prevent banking panics.
 B) improve the flow of information to investors.
 C) protect bank employees from unemployment.
 D) protect bank shareholders against losses.
- 33) A problem with the yield on discount basis is that it _____ the yield to maturity, and this _____ increases, the _____ the maturity of the discount bond. 33) _____
 A) overstates; overstatement; shorter B) overstates; overstatement; longer
 C) understates; understatement; shorter D) understates; understatement; longer
- 34) If bad credit risks are the ones who most actively seek loans and, therefore, receive them from financial intermediaries, then financial intermediaries face the problem of _____ 34) _____
 A) free-riding. B) moral hazard.
 C) adverse selection. D) costly state verification.
- 35) Money market mutual fund shares function like _____ 35) _____
 A) checking accounts that pay interest. B) stocks.
 C) currency. D) bonds.
- 36) The primary liabilities of a credit union are _____ 36) _____
 A) mortgages. B) commercial loans.
 C) deposits. D) bonds.
- 37) The conversion of a barter economy to one that uses money _____ 37) _____
 A) increases efficiency by reducing the need to specialize.
 B) increases efficiency by reducing transactions costs.
 C) does not increase economic efficiency.
 D) increases efficiency by reducing the need to exchange goods and services.
- 38) Well-functioning financial markets _____ 38) _____
 A) cause financial crises. B) produce an efficient allocation of capital.
 C) eliminate the need for indirect finance. D) cause inflation.
- 39) Budgets deficits can be a concern because they might _____ 39) _____
 A) ultimately lead to higher inflation. B) lead to lower interest rates.
 C) lead to higher bond prices. D) lead to a slower rate of money growth.

- 40) An important function of secondary markets is to _____ 40) _____
 A) raise funds for corporations through the sale of securities.
 B) create a market for newly constructed houses.
 C) make it easier for governments to raise taxes.
 D) make it easier to sell financial instruments to raise funds.
- 41) When an investment bank _____ securities, it guarantees a price for a corporation's securities and then sells them to the public. 41) _____
 A) underwrites B) undertakes C) overwrites D) overtakes
- 42) In which of the following situations would you prefer to be borrowing? 42) _____
 A) The interest rate is 9 percent and the expected inflation rate is 7 percent.
 B) The interest rate is 4 percent and the expected inflation rate is 1 percent.
 C) The interest rate is 25 percent and the expected inflation rate is 50 percent.
 D) The interest rate is 13 percent and the expected inflation rate is 15 percent.
- 43) Banks are important to the study of money and the economy because they 43) _____
 A) channel funds from investors to savers.
 B) have been a source of rapid financial innovation.
 C) create inflation.
 D) are the only important financial institution in the U.S. economy.
- 44) A disadvantage of _____ is that it is very heavy and hard to transport from one place to another. 44) _____
 A) electronic money B) paper money
 C) fiat money D) commodity money
- 45) Paper currency that has been declared legal tender but is not convertible into coins or precious metals is called _____ money. 45) _____
 A) electronic B) commodity C) funny D) fiat
- 46) Financial markets promote economic efficiency by 46) _____
 A) channeling funds from savers to investors.
 B) reducing investment.
 C) creating inflation.
 D) channeling funds from investors to savers.
- 47) Evidence from business cycle fluctuations in the United States indicates that 47) _____
 A) recessions have been preceded by dollar depreciation.
 B) recessions have been preceded by declines in share prices on the stock exchange.
 C) recessions have been preceded by a decline in the growth rate of money.
 D) a negative relationship between money growth and general economic activity exists.
- 48) Financial institutions that accept deposits and make loans are called _____ institutions. 48) _____
 A) depository B) underwriting
 C) contractual savings D) investment

- 49) The nominal interest rate minus the expected rate of inflation 49) _____
- A) is a less accurate indicator of the tightness of credit market conditions than is the nominal interest rate.
 - B) defines the discount rate.
 - C) is a less accurate measure of the incentives to borrow and lend than is the nominal interest rate.
 - D) defines the real interest rate.
- 50) For simple loans, the simple interest rate is _____ the yield to maturity. 50) _____
- A) not comparable to
 - B) greater than
 - C) less than
 - D) equal to

Answer Key

Testname: EXAM1_SPRING2008

- 1) B
- 2) D
- 3) D
- 4) B
- 5) D
- 6) A
- 7) C
- 8) A
- 9) C
- 10) C
- 11) A
- 12) B
- 13) C
- 14) D
- 15) C
- 16) D
- 17) C
- 18) A
- 19) B
- 20) B
- 21) D
- 22) A
- 23) C
- 24) D
- 25) D
- 26) D
- 27) B
- 28) A
- 29) C
- 30) A
- 31) A
- 32) A
- 33) D
- 34) C
- 35) A
- 36) C
- 37) B
- 38) B
- 39) A
- 40) D
- 41) A
- 42) C
- 43) B
- 44) D
- 45) D
- 46) A
- 47) C
- 48) A
- 49) D
- 50) D