


Pool Canvas

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Name TestBanks Chapter 1 Multiple-Choice Questions

Description Question pool for TestBanks Chapter 1 Multiple-Choice Questions

Instructions

[Modify](#)

[Add Question Here](#)

Question 1 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Financial markets contain people and firms that buy and sell two kinds of assets: _____ and _____.

Answer

- travelers checks; insurance policies
- currency; securities
- dollars; euros
- bonds; stocks

[Add Question Here](#)

Question 2 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Financial markets are made up of people and firms that _____ assets.

Answer

- buy
- sell
- print
- buy and sell

[Add Question Here](#)

Question 3 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

A security is a claim on _____ of income.

Answer

- future flows
- the current amount
- the past flow
- the profits

[Add Question Here](#)

Question 4 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following best defines a security?

Answer

- It is a claim on the past flow of income.
- It is a claim on the depreciation of income.
- It is a fixed payment.
- It is a claim on the future flow of income.

[Add Question Here](#)

Question 5 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

A bond is an example of a:

Answer

- fixed income security.
- constant asset.
- flexible income security.
- security with an unknown payment.

[Add Question Here](#)

Question 6 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

A bond pays its _____ at the time of _____.

Answer

- present value; purchase
- future value; purchase
- face value; maturity
- present value; maturity

[Add Question Here](#)

Question 7 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Consider a bond you buy for \$100 which pays you \$6 a year for 10 years, and then pays back the \$100. The face value of the bond is _____, the _____ is \$6, and the maturity is _____.

Answer

- \$6; coupon payment; 10 years
- \$100; coupon payment; 10 years
- \$100; face value; 1 year
- \$100; coupon payment; 1 year

[Add Question Here](#)

Question 8	Multiple Choice	0 points	Modify Remove
Question Which of the following institutions do <i>not</i> issue bonds?			
Answer the Federal government corporations local governments ✔ None of the answers are correct.			
			Add Question Here
Question 9	Multiple Choice	0 points	Modify Remove
Question Which of the following institutions do <i>not</i> issue bonds?			
Answer foreign governments corporations government agencies ✔ None of the answers are correct.			
			Add Question Here
Question 10	Multiple Choice	0 points	Modify Remove
Question Interest is best defined as:			
Answer ✔ the payment for using funds. the amount of a loan. insurance against future disaster. the receipt of principle.			
			Add Question Here
Question 11	Multiple Choice	0 points	Modify Remove
Question If a bond's face value plus all coupon payments exceeds the price a buyer pays, the bond pays:			
Answer a discount rate. ✔ interest. a premium. the rate of inflation.			
			Add Question Here
Question 12	Multiple Choice	0 points	Modify Remove
Question A zero coupon bond pays:			
Answer a stream of coupon payments only. its face value and coupon payments. ✔ only the face value. There is not enough information provided to answer the question.			
			Add Question Here
Question 13	Multiple Choice	0 points	Modify Remove
Question To attract _____ of a zero coupon bond, the seller must _____ the bond at _____ its face value.			
Answer ✔ buyers; sell; less than buyers; sell; greater than sellers; buy; less than sellers; buy; equal to			
			Add Question Here
Question 14	Multiple Choice	0 points	Modify Remove
Question If the issuer of a bond does not pay its promised payments, the issuer:			
Answer ✔ defaults. goes bankrupt. lacks revenues. All of the answers are correct.			
			Add Question Here
Question 15	Multiple Choice	0 points	Modify Remove
Question Which of the following arranges risk from least to most risky (left to right)?			
Answer large corporations, government, small corporations small corporations, large corporations, government government, small corporations, large corporations ✔ government large corporations, small corporations			
			Add Question Here
Question 16	Multiple Choice	0 points	Modify Remove

Question

A stock is:

- Answer**
- a loan to a corporation.
 - a fixed-payment asset.
 - an ownership share in a corporation.
 - an ownership share in a government.

[◀ Add Question Here](#)[Modify](#) [Remove](#)Question 17 **Multiple Choice** **0 points****Question**

A stock entitles you to:

- Answer** a percentage of a firm's total profits.
- one dollar for each of a firm's share you own.
 - a fixed payment forever.
 - a fixed face-value payment at the time of maturity.

[◀ Add Question Here](#)[Modify](#) [Remove](#)Question 18 **Multiple Choice** **0 points****Question**

A stock entitles you to:

- Answer**
- charge interest to a corporation.
 - a fixed payment forever.
 - a percentage of a firm's total profits.
 - None of the answers are correct.

[◀ Add Question Here](#)[Modify](#) [Remove](#)Question 19 **Multiple Choice** **0 points****Question**

Corporations issue stocks to:

- Answer**
- write off taxes on profits.
 - raise funds for investment.
 - enrich the owners of the corporation.
 - engage in trading activities.

[◀ Add Question Here](#)[Modify](#) [Remove](#)Question 20 **Multiple Choice** **0 points****Question**

When governments don't have enough funds to make bond payments, they:

- Answer** default.
- declare bankruptcy.
 - call an election.
 - buy back the bonds.

[◀ Add Question Here](#)[Modify](#) [Remove](#)Question 21 **Multiple Choice** **0 points****Question**

Default risk is ____ for new corporations because they may stop making ____ payments.

- Answer**
- lower; dividend
 - lower; bond
 - higher; dividend
 - higher; bond

[◀ Add Question Here](#)[Modify](#) [Remove](#)Question 22 **Multiple Choice** **0 points****Question**

A well-functioning financial market:

- Answer**
- transfers funds from investors to savers.
 - decreases the economy's productivity.
 - allows firms to fund investment projects.
 - ensures that speculators always make money.

[◀ Add Question Here](#)[Modify](#) [Remove](#)Question 23 **Multiple Choice** **0 points****Question**

A ____ is a security that promises to pay the buyer predetermined amounts of money at certain times in the future.

- Answer** bond
- share of common stock
 - dividend
 - share of preferred stock

[◀ Add Question Here](#)[Modify](#) [Remove](#)Question 24 **Multiple Choice** **0 points****Question**

Suppose you pay \$1000 for a bond that pays you \$35 a year for five years and then pays you back \$1000 at the end of the fifth year. Which of the following statements is true?

- Answer**
- The face value of this bond is \$35.
 - The bond's maturity is 10 years.
 - ✓ The coupon payment is \$35.
 - This bond has a coupon rate of 10 percent.

◀ [Add Question Here](#)

Question 25 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following statements about bonds is true?

- Answer**
- Commercial paper matures in more than five years.
 - A zero-coupon bond always sells for more than its face value.
 - ✓ A Treasury bill matures in less than a year.
 - Commercial paper is considered long-term debt.

◀ [Add Question Here](#)

Question 26 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The risk of default is _____ for bonds issued by the U.S. government and _____ for bonds issued by corporations losing money.

- Answer**
- small; about the same
 - large; about the same
 - ✓ small; larger
 - large; smaller

◀ [Add Question Here](#)

Question 27 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following statements about stock is true?

- Answer**
- Holding bonds is usually riskier than holding stock.
 - If you own stock in a corporation, then you are a creditor of that corporation.
 - ✓ The flow of income generated by stock is unpredictable.
 - Stock prices are less volatile than bond prices.

◀ [Add Question Here](#)

Question 28 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Financial markets help transfer funds from the _____ to the _____.

- Answer**
- bankers; investors.
 - depositors; bankers
 - ✓ savers; investors
 - investors; savers

◀ [Add Question Here](#)

Question 29 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following explain(s) the importance of financial markets?

- I. They help channel funds from savers to investors with productive uses for the funds.
- II. They help people and firms share risks.
- III. They allow the rich to get richer.

- Answer**
- I only
 - II only
 - ✓ I and II
 - I, II, and III

◀ [Add Question Here](#)

Question 30 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following definitions does the text use?

- Answer** ✓
- Savers are people who spend less than they earn.
 - Investors are people who make risky purchases of paper assets.
 - Savers are people who spend more than they earn.
 - Investors are people who purchase stocks and bonds.

◀ [Add Question Here](#)

Question 31 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following definitions does the text use?

- Answer** ✓
- Savers are people who spend less than they earn.
 - Investors are people who spend more than they earn.
 - Investors are people who purchase stocks and bonds.
 - Savers are people who put all their excess income in savings accounts.

◀ [Add Question Here](#)

Question 32 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Diversification is defined as:

- Answer**
- spending less than is earned.
 - ✓ the distribution of wealth among different assets.
 - increasing the productive capacity of the economy.
 - the general rising level of prices.

◀ [Add Question Here](#)

Question 33 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Diversification allows _____ to earn healthy returns from securities while minimizing _____.

- Answer**
- ✓ savers; risk
 - sellers; risk
 - savers; inflation
 - savers; unemployment

◀ [Add Question Here](#)

Question 34 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

A mutual fund is an institution that:

- Answer**
- ✓ holds a diversified set of assets and sells shares to savers.
 - holds a diversified set of assets and buys shares directly from the government.
 - holds a single share and sells shares to savers.
 - buys physical capital for investors.

◀ [Add Question Here](#)

Question 35 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Employees of Enron got into trouble because:

- Answer**
- they could only buy Enron stock for retirement.
 - ✓ the majority of the 401(k) fund they saved in was devoted to Enron stock.
 - their pension fund went bankrupt.
 - the majority of the 401(k) fund they saved in was devoted to Microsoft stock.

◀ [Add Question Here](#)

Question 36 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Firms which have a majority of their own stock in their employee 401(k) plans include:

- Answer**
- General Electric.
 - Pfizer.
 - Procter & Gamble.
 - ✓ All of the answers are correct.

◀ [Add Question Here](#)

Question 37 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Financial markets help channel _____ to _____ and help people share _____.

- Answer**
- money; individuals; profits
 - profits; companies; risk
 - ✓ savings; investors; risk
 - dividends; individuals; risk

◀ [Add Question Here](#)

Question 38 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Many American workers save for their retirement through a 401(k) plan with their employer. This plan is generally a good idea if the 401(k) plan is _____ because the plan will be _____ risky.

- Answer**
- invested in company stock; less
 - invested in company stock; more
 - ✓ diversified; less
 - diversified; more

◀ [Add Question Here](#)

Question 39 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Economic functions of financial markets include:

- Answer**
- ✓ matching savers and investors.
 - making sure no saver suffers a loss.
 - decreasing the overall efficiency of the economy.
 - making sure no investor suffers a loss.

◀ [Add Question Here](#)

Question 40 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose Jessica issues a bond to raise funds for her new company and that David buys some of these bonds. According to the textbook, Jessica is the _____.

- Answer**
- the saver and David is the investor
 - the investor and David is the saver
 - both the saver and the investor
 - neither the saver nor the investor

[◀ Add Question Here](#)

Question 41 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the textbook, the old adage "Don't put all your eggs in one basket" relates to the concept of:

- Answer**
- diversification.
 - concentration.
 - risk maximization.
 - risk standardization.

[◀ Add Question Here](#)

Question 42 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Financial markets promote diversification by:

- Answer** allowing investors to issue stock or bonds and therefore avoid using only their own money to fund their projects.
- restricting savers' opportunities to choose from when deciding an asset to buy.
 - preventing savers and borrowers from sharing in the risks associated with any investment.
 - increasing the probability that an investor default will decrease savers' returns.

[◀ Add Question Here](#)

Question 43 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Amy has bought stock in five different corporations, while Bob used all his savings to buy stock in only one company. According to this, Amy has a _____ diversified portfolio and therefore is facing _____ risk than Bob.

- Answer**
- more; more
 - less; more
 - more; less
 - less; less

[◀ Add Question Here](#)

Question 44 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When financial markets collapse and stop matching savers with investors:

- Answer**
- there are no consequences for the performance of the economy.
 - the economy benefits greatly from less speculation.
 - the economy usually suffers: production decreases and unemployment increases.
 - there are no consequences for the performance of the economy, and the economy benefits greatly from less speculation.

[◀ Add Question Here](#)

Question 45 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Economists call the situation in which one side of an economic transaction has more information than the other:

- Answer**
- a negative externality.
 - a fixed cost.
 - a lack of diversification.
 - asymmetric information.

[◀ Add Question Here](#)

Question 46 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The problem of *adverse selection* arises when the owners of a security have a(n):

- Answer**
- incentive to misbehave after an asset purchase.
 - incentive to behave according to expectations.
 - incentive to give potential buyers bad information.
 - disincentive to give potential buyers bad information.

[◀ Add Question Here](#)

Question 47 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The problem of *moral hazard* arises when the owners of a security have:

- Answer**
- an incentive to give potential buyers bad information.
 - little incentive to behave prudently after selling its asset.
 - a disincentive to give potential buyers bad information.
 - an incentive to behave according to expectations.

[◀ Add Question Here](#)

Question 48 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Moral hazard and adverse selection are examples of:

- Answer**
- irrational exuberance.
 - asymmetric information.
 - adaptive expectations.
 - default risk.

[◀ Add Question Here](#)

Question 49 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

One reason that investors may be unwilling to purchase securities is because:

- Answer**
- investors believe that economic growth is going to slow down.
 - investors don't have enough information about the company.
 - the company does not share all of the information with investors.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 50 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When the owner of a company does not act in the shareholders, best interest, the situation is known as:

- Answer**
- moral hazard.
 - adverse selection.
 - asymmetric information.
 - None of the answers is correct.

[◀ Add Question Here](#)

Question 51 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When one participant in an economic transaction has more information than the other participant, the situation is known as:

- Answer**
- uncertain information.
 - asymmetric information.
 - perfect information.
 - symmetric information.

[◀ Add Question Here](#)

Question 52 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the adverse selection problem, firms that are most eager to make a transaction are the _____ desirable to parties on the other side of the transaction. For example, a low-quality firm will be most eager to issue a security when its price is _____.

- Answer**
- most; low
 - most; high
 - least; low
 - least; high

[◀ Add Question Here](#)

Question 53 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

When adverse selection problems increase, it is likely that the quality (i.e., value, low default risk) of securities traded in the financial market will:

- Answer**
- decline.
 - increase.
 - remain about the same as if there were no adverse selection problems.
 - decline, increase, or remain about the same.

[◀ Add Question Here](#)

Question 54 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose you want to buy a bond in the financial market, but you do not have enough information about bond issuers. The problem you are facing is usually known as:

- Answer**
- moral hazard.
 - adverse selection.
 - free rider.
 - conflict of interest.

[◀ Add Question Here](#)

Question 55 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The asymmetric information problem created before the transaction occurs is known as _____, while the asymmetric information problem that arises after the transaction is known as _____.

- Answer**
- moral hazard; adverse selection
 - the free-rider problem; adverse selection
 - adverse selection; the free-rider problem
 - adverse selection; moral hazard

[◀ Add Question Here](#)

Question 56 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Suppose asymmetric information problems (i.e., adverse selection and moral hazard) decrease. As a result, the quantity of securities will _____ and the quality of these securities will _____.

- Answer**
- increase; decrease
 - increase; increase
 - decrease; decrease
 - decrease; increase

[◀ Add Question Here](#)

Question 57 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following best defines a financial institution?

- Answer**
- an institution that only makes loans
 - a firm that prints money
 - a firm that helps channel funds from savers to investors
 - a government agency that gives away funds to investors

[◀ Add Question Here](#)

Question 58 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

A firm that helps channel funds from _____ to _____ is called a _____.

- Answer**
- savers; investors; financial institution
 - savers; investors; government agency
 - investors; savers; financial institution
 - the government; investors; bank

[◀ Add Question Here](#)

Question 59 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

A bank:

- Answer**
- prints money.
 - makes loans.
 - takes deposits and issues bonds.
 - takes deposits and makes loans.

[◀ Add Question Here](#)

Question 60 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

_____ is defined as when savers deposit money in banks which then lend to investors, while _____ arises when savers provide funds to investors by buying securities in financial markets.

- Answer**
- Lending; borrowing
 - Indirect finance; direct finance
 - Borrowing; direct finance
 - Direct finance; indirect finance

[◀ Add Question Here](#)

Question 61 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Banks reduce _____ by screening _____.

- Answer**
- moral hazard; potential borrowers
 - adverse selection; savers
 - adverse selection; potential borrowers
 - irrational exuberance; depositors

[◀ Add Question Here](#)

Question 62 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The difference in interest rates between savings accounts and loans can be explained, in part, by the:

- Answer**
- cost of gathering information on potential borrowers—adverse selection.
 - risk associated with making loans.
 - cost of monitoring borrowers once the loan has been made—moral hazard.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 63 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

By requiring borrowers to sign a covenant when getting a loan, a bank is trying to minimize

- Answer**
- high unexpected inflation.
 - moral hazard.
 - adverse selection.
 - irrational exuberance.

[◀ Add Question Here](#)

Question 64 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

To minimize the problem of moral hazard when making a loan, a bank requires a borrower to:

- Answer** ✓ sign a covenant.
 use their car as collateral.
 put up 50 percent of their own funds as a downpayment.
 None of the answers are correct.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 65 **Multiple Choice** **0 points**

Question

Banks are the main source of funding for _____, mainly because of _____ and _____.

- Answer** bond holders; risk; asymmetric information
 governments; adverse selection; uncertainty about the future
 ✓ small firms; adverse selection; moral hazard
 big firms; adverse selection; moral hazard

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 66 **Multiple Choice** **0 points**

Question

The financial crisis of 2007–2009 was caused in part by:

- Answer** the failure of investors to purchase securities.
 investors not borrowing enough from the banks.
 ✓ the failure of banks to adequately screen borrowers before giving them loans.
 banks providing too much information to securities markets.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 67 **Multiple Choice** **0 points**

Question

Some companies are able to raise funds on the securities market rather than borrowing from a bank because:

- Answer** these companies are not very well known to the bank.
 ✓ these companies are well known to the public.
 the bank is restricted from lending to some companies.
 most banks only lend to individuals, not to companies.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 68 **Multiple Choice** **0 points**

Question

Individuals from two different businesses apply for a loan at a bank. If the individual with the bad credit history obtains a loan rather than the individual with the good credit history, this is an example of:

- Answer** microfinance.
 direct finance.
 ✓ adverse selection.
 moral hazard.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 69 **Multiple Choice** **0 points**

Question

Which of the following can be considered a “financial intermediary”?

- Answer** ✓ a bank
 a stockbroker
 a securities dealer
 a member of the SEC

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 70 **Multiple Choice** **0 points**

Question

Which of the following institutions accept deposits and make loans?

- Answer** investment banks
 ✓ commercial banks
 mutual funds
 pension funds

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 71 **Multiple Choice** **0 points**

Question

Which of the following can be described as “indirect finance”?

- Answer** You buy 400 shares of IBM stock.
 You buy \$5000 worth of ATT bonds.
 ✓ You deposit \$1000 in your local bank.
 You lend \$40 to your cousin.

◀ [Add Question Here](#)

[Modify](#) | [Remove](#)

Question 72 **Multiple Choice** **0 points**

Question

Which of the following can be considered as “direct finance”?

- Answer**
- Your friend gets a car loan from the local bank.
 - You buy \$3000 worth of Intel bonds.
 - You deposit \$4000 in your savings account.
 - You take out a mortgage loan at a bank.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 73 **Multiple Choice** **0 points**

Question

According to the textbook, the primary reason why banks exist is that:

- Answer**
- banks keep our money safe in their vaults.
 - banks make sure our money does not lose its purchasing power.
 - banks reduce asymmetric information problems.
 - banks make bank managers rich.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 74 **Multiple Choice** **0 points**

Question

When a bank officer asks questions about an individual's ability to repay a loan (e.g., the bank, credit history, current employment characteristics, net worth, etc.), the bank is trying to cope with the _____ problem.

- Answer**
- moral-hazard
 - chronic-gossiper
 - adverse-selection
 - principal-agent

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 75 **Multiple Choice** **0 points**

Question

The practice of including a covenant in a loan contract is a way of dealing with the _____ problem.

- Answer**
- moral-hazard
 - chronic-borrower-gambler
 - adverse-selection
 - free-rider

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 76 **Multiple Choice** **0 points**

Question

Which of the following can be defined as economic growth?

- I. Growth in real GDP
- II. Increases in productivity
- III. Falling unemployment

- Answer**
- I only
 - II only
 - III only
 - I and II

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 77 **Multiple Choice** **0 points**

Question

One explanation for high long-run economic growth rates is:

- Answer**
- high savings rates.
 - high consumption rates.
 - low productivity.
 - low rates of unemployment.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 78 **Multiple Choice** **0 points**

Question

Empirical evidence shows a positive correlation between _____ and _____.

- Answer**
- inflation; financial development
 - inflation; economic growth
 - high rates of money growth; economic growth.
 - financial development; economic growth

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 79 **Multiple Choice** **0 points**

Question

Researchers found that countries with _____ in the 1960s had faster _____.

- Answer**
- strong financial systems; economic growth during the 1960s
 - strong financial systems; economic growth in the decades after the 1960s
 - weaker financial systems; inflation in the decades after the 1960s
 - strong financial systems; inflation before the 1960s

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 80 **Multiple Choice** **0 points**

Question

The restriction that requires that banks operate in no more than one state is called:

- Answer**
- asymmetric information.
 - unit banking.
 - moral hazard.
 - a negative externality.

[◀ Add Question Here](#)

Question 81 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following is/are arguments *against* unit banking?

- I. Decreasing economies of scale
- II. Decreased bank risk
- III. Less competition

- Answer**
- I only
 - II only
 - III only
 - I and III

[◀ Add Question Here](#)

Question 82 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following is/are arguments *against* unit banking?

- I. Increasing economies of scale
- II. Increased bank risk
- III. More competition

- Answer**
- I only
 - II only
 - III only
 - I and II

[◀ Add Question Here](#)

Question 83 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Banks in developing economies are less willing to lend to small firms because:

- Answer**
- of higher loan default rates.
 - interest rates charged cover transaction costs.
 - of lower adverse selection.
 - of lower moral hazard.

[◀ Add Question Here](#)

Question 84 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Microfinance institutions get around the problem of moral hazard and high default rates by:

- Answer**
- lending to groups rather than individuals.
 - lending only to proven borrowers.
 - lending only to large businesses.
 - charging usurious interest rates.

[◀ Add Question Here](#)

Question 85 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

An economy run by the government which completely decides what goods and services to produce, who receives them, and which investment projects to undertake, is called a:

- Answer**
- command economy.
 - market economy.
 - mixed economy.
 - socialist economy.

[◀ Add Question Here](#)

Question 86 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Economic historians have pointed to which of the following to explain the demise of the Soviet Union?

- I. Managers were evaluated based on profits rather than production quotas.
- II. There was misallocation of investment, with “prestige” sectors chosen over less productive ones.
- III. Planners emphasized the short run over the long run.

- Answer**
- I only
 - II only
 - III only
 - II and III

[◀ Add Question Here](#)

Question 87 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

The differences in the financial systems across countries help explain why some countries are richer than other countries, because:

- I. richer countries tend to have stronger financial systems than poorer countries.
- II. richer countries do not have a problem with asymmetric information in financial markets.
- III. richer countries tend to have larger populations than poorer countries.

Answer

- I only
- I and II
- I and III
- I, II, and III

[◀ Add Question Here](#)

Question 88 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Many microfinance institutions help the economies in developing countries grow by:

- I. only lending to people who borrow as part of a group.
- II. lending primarily to women.
- III. requiring borrowers to operate as a not-for-profit business.

Answer

- I only
- II only
- III only
- I, II, and III

[◀ Add Question Here](#)

Question 89 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Centrally planned economies often outperform market-based economies in the short run because:

- Answer**
- the government can identify the most productive investment projects.
 - prices in market-based economies do not reflect consumer demand.
 - the government controls the economy's resources and can require high levels of investment.
 - government employees are very efficient.

[◀ Add Question Here](#)

Question 90 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Many East Asian countries, such as Taiwan, Singapore, and South Korea, rapidly moved from the world's poorest countries to among the world's richest countries in three decades. The main reason for this progress was because:

- Answer**
- their governments directed resources to the best investment projects.
 - banks in these countries were not allowed to engage in cross-border business.
 - their governments did not create a strong financial system.
 - these countries had high saving rates.

[◀ Add Question Here](#)

Question 91 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following statements about the link between the savings rate and the financial system is true?

- Answer**
- A low savings rate and an underdeveloped financial system will create economic growth.
 - A high savings rate and a strong financial system can create economic growth.
 - A high savings rate and an underdeveloped financial system will create economic growth.
 - All of the answers are correct.

[◀ Add Question Here](#)

Question 92 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Which of the following statements about financial systems is true?

- Answer**
- Forcing firms to provide information about their investment and expected profits results in an underdeveloped financial system.
 - Financial systems of different countries have different regulations.
 - When financial systems cannot work properly, it is easy for investors to get funds.
 - All countries make sure that bank depositors have their deposits insured.

[◀ Add Question Here](#)

Question 93 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

Recent research about the link between the financial system and economic growth suggests that:

- Answer**
- a strong financial system can spur economic growth.
 - the efficiency of the financial system is irrelevant for economic growth.
 - a weak financial system promotes economic growth.
 - there is no link at all between the financial system and economic growth.

[◀ Add Question Here](#)

Question 94 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the textbook, unit banking:

- Answer**
- allowed banks to exploit economies of scale.
 - increased competition in the banking industry.
 - allowed banks to diversify their loans portfolio.
 - None of the answers are correct.

[◀ Add Question Here](#)

Question 95 **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

Question

According to the textbook, unit banking _____ competition in the banking industry and _____ banks to exploit economies of scale.

Answer

- increased; did not allow
- decreased; encouraged
- ✓ decreased; did not allow
- increased; encouraged

◀ [Add Question Here](#)

Question 96

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Which of the following can be considered a consequence of unit banking?

- Answer** ✓ Banks usually operated as monopolists, charging high fees and providing poor service.
- Funds flowed more easily from savers to investors.
 - The banking industry in the United States became more efficient.
 - Unit banking promoted competition in the U.S. banking industry.

◀ [Add Question Here](#)

Question 97

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

According to historical evidence, a centrally planned economy:

- Answer**
- efficiently allocates funds by deciding which investment project must be funded.
 - ✓ shows that free financial markets are critical for the proper allocation of funds and economic growth.
 - is a better alternative than free markets when considering how to allocate funds.
 - always resulted in more efficient financial systems and higher economic growth than free market economies.

◀ [Add Question Here](#)

Question 98

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

According to the textbook, the centrally planned economy of the Soviet Union:

- Answer**
- overinvested in heavy industry.
 - underinvested in consumer goods.
 - allowed a free financial market to allocate funds to their most productive use.
 - ✓ overinvested in heavy industry and underinvested in consumer goods.

◀ [Add Question Here](#)

Question 99

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

The United States experienced a financial crisis in 2007–2009 that pulled the country into an economic crisis when:

- Answer**
- large financial institutions failed.
 - asset prices fell sharply.
 - bank lending contracted.
 - ✓ All of the answers are correct.

◀ [Add Question Here](#)

Question 100

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Governments are able to stop or slow down a financial crisis by:

- Answer**
- imposing wage and price controls to prevent price increases.
 - selling government bonds to reduce the money supply.
 - ✓ making loans to families.
 - purchasing financial securities.

◀ [Add Question Here](#)

Question 101

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Which of the following events is usually present during a financial crisis?

- Answer**
- an increase in stock prices
 - ✓ a decrease in output
 - a decrease in unemployment
 - an increase in GDP

◀ [Add Question Here](#)

Question 102

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

During the 2007–2009 financial crisis in the United States:

- Answer**
- the Fed pushed short-term rates to near zero.
 - the unemployment rate rose to close to 4 percent.
 - the Fed contracted the money supply aggressively.
 - ✓ GDP increased at a 5 percent annual rate.

◀ [Add Question Here](#)

Question 103

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Inflation is defined as:

- Answer** the percentage change of the price of oil over a period of time.
 the difference in the aggregate price level over a period of time.
 ✓ the percentage increase in the aggregate price level over a period of time.
 today's aggregate price level divided by yesterday's price level.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 104 **Multiple Choice** **0 points**

Question

Real GDP is defined as:

- Answer** ✓ nominal GDP divided by the aggregate price level.
 the total value of all goods and services produced in an economy in a given period at current prices.
 the aggregate price level divided by nominal GDP.
 the types of goods and services produced.

[◀ Add Question Here](#)

[Modify](#) [Remove](#)

Question 105 **Multiple Choice** **0 points**

Question

Which of the following is true?

- Answer** ✓
$$\text{real GDP} = \frac{\text{nominal GDP}}{\text{aggregate price level}}$$

$$\text{real GDP} = \text{nominal GDP} \times \text{aggregate price level}$$

$$\text{nominal GDP} = \frac{\text{real GDP}}{\text{aggregate price level}}$$

$$\text{aggregate price level} = \frac{\text{real GDP}}{\text{nominal GDP}}$$

[◀ Add Question Here](#)

[OK](#)