


Pool Canvas

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Name TestBanks Chapter 9 Multiple-Choice Questions

Description Question pool for TestBanks Chapter 9 Multiple-Choice Questions

Instructions

[Modify](#)

[◀ Add Question Here](#)

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

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

Question

Net worth is:

Answer assets minus liabilities.
 revenues minus costs.
 profits minus salaries.
 price minus marginal cost.

[◀ Add Question Here](#)

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

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

Question

A bank's balance sheet summarizes its:

Answer liabilities.
 assets.
 net worth.
 All of the answers are correct.

[◀ Add Question Here](#)

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

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

Question

A bank's net worth is also called its:

Answer revenue.
 capital.
 loans.
 deposits.

[◀ Add Question Here](#)

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

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

Question

A bank's liabilities:

Answer must equal its assets.
 is the amount owed to others.
 equal zero in the long run.
 equal its deposits.

[◀ Add Question Here](#)

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

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

Question

On a bank's balance sheet, which of the following is an asset?

Answer checking deposits
 small-time deposits
 savings accounts
 None of the answers are correct.

[◀ Add Question Here](#)

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

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

Question

On a bank's balance sheet, which of the following is an asset?

Answer vault cash
 checking deposits
 small-time deposits
 savings accounts

[◀ Add Question Here](#)

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

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

Question

On a bank's balance sheet, which of the following is an asset?

Answer vault cash
 loans
 securities
 All of the answers are correct.

[◀ Add Question Here](#)

Question 8	Multiple Choice	0 points	Modify Remove
<p>Question On a bank's balance sheet, which of the following is a liability?</p> <p>Answer checking deposits small-time deposits savings accounts ✓ All of the answers are liabilities.</p>			
			Add Question Here
Question 9	Multiple Choice	0 points	Modify Remove
<p>Question The largest liabilities held by banks are:</p> <p>Answer loans. securities. ✓ nontransaction deposits. vault cash.</p>			
			Add Question Here
Question 10	Multiple Choice	0 points	Modify Remove
<p>Question Which of the following is the largest liability on the consolidated balance sheet of U.S. banks?</p> <p>Answer ✓ nontransaction deposits checking deposits borrowings "other" liabilities</p>			
			Add Question Here
Question 11	Multiple Choice	0 points	Modify Remove
<p>Question Overnight bank-to-bank loans are called:</p> <p>Answer certificates of deposit. ✓ federal funds. discount loans. overnight repurchase agreements.</p>			
			Add Question Here
Question 12	Multiple Choice	0 points	Modify Remove
<p>Question A _____ is when a bank sells a security to another institution with a promise to buy it back later.</p> <p>Answer ✓ repurchase agreement sweep account federal fund Treasury loan</p>			
			Add Question Here
Question 13	Multiple Choice	0 points	Modify Remove
<p>Question A loan to a commercial bank made directly from the Fed is called a:</p> <p>Answer Treasury bill. federal funds loan. bailout. ✓ discount loan.</p>			
			Add Question Here
Question 14	Multiple Choice	0 points	Modify Remove
<p>Question Which of the following is <i>not</i> a way banks can borrow?</p> <p>Answer ✓ certificate of deposit federal funds discount loan overnight repurchase agreement</p>			
			Add Question Here
Question 15	Multiple Choice	0 points	Modify Remove
<p>Question A bank acquires capital by:</p> <p>Answer buying securities from other institutions. ✓ issuing stock. making loans. borrowing from the discount window.</p>			
			Add Question Here
Question 16	Multiple Choice	0 points	Modify Remove

Question

The largest assets on the consolidated balance sheet of U.S. banks is/are:

- Answer** ✓ loans.
 ownership of securities.
 federal funds.
 "other" assets.

◀ [Add Question Here](#)

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

Question 17 **Multiple Choice** **0 points**

Question

A bank's reserves are equal to:

- Answer** deposits at the Fed.
 vault cash.
 ✓ vault cash plus deposits at the Fed.
 saving deposits plus checkable deposits.

◀ [Add Question Here](#)

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

Question 18 **Multiple Choice** **0 points**

Question

Because _____ generate no income, banks hold a _____ portion of their assets in this form.

- Answer** securities; large
 loans; small
 ✓ reserves; small
 buildings; large

◀ [Add Question Here](#)

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

Question 19 **Multiple Choice** **0 points**

Question

The most liquid form of assets on a bank's balance sheet are:

- Answer** checking deposits.
 ✓ reserves.
 loans.
 federal funds.

◀ [Add Question Here](#)

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

Question 20 **Multiple Choice** **0 points**

Question

Which of the following securities are banks allowed to hold?

- Answer** Treasury bonds
 municipal bonds
 bonds issued by government agencies
 ✓ Banks are allowed to hold all of these securities.

◀ [Add Question Here](#)

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

Question 21 **Multiple Choice** **0 points**

Question

Which of the following securities are banks *not* allowed to hold?

- Answer** high-rated corporate bonds
 ✓ stocks
 municipal bonds
 Treasury bonds

◀ [Add Question Here](#)

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

Question 22 **Multiple Choice** **0 points**

Question

Which of the following arranges a bank's assets from most to least liquid?

- Answer** ✓ Reserves → Securities → Loans
 Loans → Checkable deposits → Reserves
 Checkable deposits → Savings accounts → Federal funds
 Reserves → Savings accounts → Securities

◀ [Add Question Here](#)

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

Question 23 **Multiple Choice** **0 points**

Question

Which of the following is *not* a way banks can raise funds?

- Answer** ✓ lines of credit
 checking deposits
 certificates of deposit
 federal funds

◀ [Add Question Here](#)

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

Question 24 **Multiple Choice** **0 points**

Question

Loans from one bank to another are called _____; loans from a corporation to a bank are called _____.

Answer

- repurchase agreements; federal funds
- certificates of deposit; discount loans
- discount loans; bonds
- federal funds; repurchase agreements

[◀ Add Question Here](#)

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

Question 25

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

When a bank's customer writes a check, the bank obtains the funds from _____.

Answer

- cash in its vault
- the bank's deposits at the Federal Reserve
- currency sitting in the bank
- repurchase agreements

[◀ Add Question Here](#)

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

Question 26

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

Banks are allowed to hold all of the following, *except*:

Answer

- mortgage-backed securities.
- stocks.
- Treasury bonds.
- securities with low risk.

[◀ Add Question Here](#)

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

Question 27

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

Which of the following include liabilities for banks?

Answer

- loans
- securities
- borrowings
- reserves

[◀ Add Question Here](#)

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

Question 28

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

Which of the following include liabilities for banks?

Answer

- reserves
- checking deposits
- cash items
- loans

[◀ Add Question Here](#)

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

Question 29

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

Loans from one bank to another are called:

Answer

- discount loans.
- federal funds.
- long-term loans.
- nonrefundable loans.

[◀ Add Question Here](#)

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

Question 30

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

Which of the following are ways for a bank to borrow?

Answer

- issuing bonds
- federal funds
- discount loans
- All of the answers are correct.

[◀ Add Question Here](#)

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

Question 31

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

Major categories of a bank's assets include:

Answer

- checking deposits.
- loans.
- nontransaction deposits.
- borrowings.

[◀ Add Question Here](#)

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

Question 32

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

By law, banks are restricted to holding securities with _____ risk, for example, _____.

- Answer**
- low; junk bonds
 - low; Treasury bonds
 - high; Treasury bonds
 - high; junk bonds

[◀ Add Question Here](#)

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

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

Question

Interest rates on securities held by banks are _____ than interest rates on bank loans, and _____ than interest rates on reserves.

- Answer**
- higher; lower
 - higher; higher
 - lower; lower
 - lower; higher

[◀ Add Question Here](#)

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

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

Question

Which of the following is *not* an off-balance-sheet bank activity?

- Answer**
- derivatives
 - federal fund loans
 - lines of credit
 - investment banking

[◀ Add Question Here](#)

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

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

Question

Which of the following is *not* an off-balance-sheet bank activity?

- Answer**
- lines of credit
 - derivatives
 - asset management
 - They are all off-balance-sheet activities.

[◀ Add Question Here](#)

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

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

Question

When a bank wishes to build a long-term relationship with a borrower, it may offer:

- Answer**
- free toasters to the borrower.
 - interest-free loans.
 - a line of credit.
 - loans with zero collateral.

[◀ Add Question Here](#)

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

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

Question

A letter of credit is effectively a(n) _____ against a loan default.

- Answer**
- insurance policy
 - derivative asset
 - bond that protects the lender
 - risk-free loan

[◀ Add Question Here](#)

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

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

Question

When an individual hires a commercial bank to manage her assets, the term for that service is:

- Answer**
- a brokerage.
 - private banking.
 - an investment bank.
 - good banking services.

[◀ Add Question Here](#)

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

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

Question

Because derivatives are considered _____, they are *not* part of a bank's current balance sheet.

- Answer**
- agreements about future transactions
 - illegal
 - purely paper assets
 - difficult to value

[◀ Add Question Here](#)

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

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

Question

When _____ was repealed, commercial banks were allowed to conduct _____.

- Answer**
- the Luxemburg-Engel Act; risk-free loans
 - the reserve requirement; zero-reserve loans
 - the Glass-Steagall Act; investment-banking services

Sherman Antitrust Act; monetary policy

[◀ Add Question Here](#)Question 41 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**When a bank issues a letter of credit, it does all of the following *except*:

- Answer**
- allow companies to obtain higher ratings from credit-rating agencies.
 - provide insurance against default.
 - ✓ issue commercial paper.
 - guarantee payment on a security.

[◀ Add Question Here](#)Question 42 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Derivatives contributed to the financial crisis because:

- Answer**
- they are tied to stock prices.
 - banks are allowed to keep them off their balance sheets.
 - banks used derivatives for speculative purposes.
 - ✓ All of the answers are true.

[◀ Add Question Here](#)Question 43 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Common off-balance-sheet activities include:

- Answer**
- borrowing from other banks.
 - ✓ lines of credit.
 - loans to new corporations.
 - mortgage loans.

[◀ Add Question Here](#)Question 44 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

A commercial letter of credit guarantees a payment for:

- Answer**
- ✓ goods or services.
 - bonds.
 - stocks.
 - mortgage-backed securities.

[◀ Add Question Here](#)Question 45 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

A standby letter of credit guarantees payment on:

- Answer**
- shipments of oil.
 - ✓ a security.
 - shipments of wheat.
 - stock.

[◀ Add Question Here](#)Question 46 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Commercial banks were allowed to underwrite securities and advise on mergers and acquisitions once again in 1999, when the ____ Act was repealed.

- Answer**
- Federal Reserve
 - McFadden
 - ✓ Glass-Steagall
 - Dodd-Frank

[◀ Add Question Here](#)Question 47 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Which of the following statements about off-balance-sheet activities is true?

- Answer**
- The Dodd-Frank Act of 2010 encouraged banks to trade derivative securities.
 - Commercial banks are allowed to buy common stock.
 - ✓ Investment banking activities are an important source of income for large banks.
 - Commercial banks are not allowed to conduct off-balance-sheet activities.

[◀ Add Question Here](#)Question 48 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Table 9.1: Bob's Bank

Asset or Liability	Amount (\$)
Checkable deposits	10
Nontransaction deposits	40
Reserves	5
Loans	35

Bank capital	5
Securities	15

Reference: Ref 9-1

(Table 9.1: Bob's Bank) Which of the following represents the Bob's Bank balance sheet?

a.

Assets		Liabilities	
Reserves	5	Checkable deposits	10
Loans	35	Nontransaction deposits	40
Bank capital	10	Securities	15

b.

Assets		Liabilities	
Reserves	5	Checkable deposits	10
Loans	35	Nontransaction deposits	40
Securities	15	Bank capital	5

c.

Assets		Liabilities	
Checkable deposits	10	Reserves	5
Nontransaction deposits	40	Loans	35
Bank capital	10	Securities	15

Answer

- a
- b
- c

There is not enough information provided to answer the question.

[Add Question Here](#)

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

Question 49

Multiple Choice

0 points

Question

Table 9.1: Bob's Bank

Asset or Liability	Amount (\$)
Checkable deposits	10
Nontransaction deposits	40
Reserves	5
Loans	35
Bank capital	5
Securities	15

Reference: Ref 9-1

(Table 9.1: Bob's Bank) Bob's Bank's net worth is:

Answer

- \$50.
- \$0.
- \$10.
- \$5.

[Add Question Here](#)

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

Question 50

Multiple Choice

0 points

Question

When you deposit \$100 in your savings account, your bank's:

Answer

- assets increase by \$100.
- liabilities fall by \$100.
- capital increases by \$100.
- reserves increase by exactly \$100.

[Add Question Here](#)

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

Question 51

Multiple Choice

0 points

Question

You take a small loan to buy a new car; it's not a great car so you only need to borrow \$2,500. What happens to the balance sheet of the bank you borrowed from?

Answer

- Its assets decrease by \$2500.
- Its assets increase by \$2500.
- Its reserves fall by \$2500.
- Its liabilities fall by \$2500.

[Add Question Here](#)

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

Question 52

Multiple Choice

0 points

Question

When a new depositor opens a \$5,000 CD at Melvin's Bank, its assets _____ and its liabilities _____.

- Answer** ✓ increase by \$5000; increase by \$5000
 increase by \$5000; decrease by \$5000
 increase by \$5000; stay the same
 decrease by \$5000; increase by \$5000

[Add Question Here](#)

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

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

Question

When you deposit a paycheck in your bank account your bank's:

- Answer** ✓ assets and liabilities increase.
 assets increase.
 assets increase and liabilities decrease.
 assets increase and liabilities are unchanged.

[Add Question Here](#)

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

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

Question

To calculate a bank's profits, we use its:

- Answer** profit margins.
 balance sheet.
 ✓ income statement.
 return on liabilities.

[Add Question Here](#)

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

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

Question

Consider a bank with the following income statement: It has \$100 in loans with an interest rate of 5 percent; \$50 in security holdings, paying 10 percent; noninterest income of \$10; \$100 in savings accounts that have an interest rate of 2.5 percent; and other expenses of \$15. How much profit does this bank make?

- Answer** -\$5
 ✓ \$2.50
 \$35
 \$20

[Add Question Here](#)

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

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

Question

Consider a bank with the following income statement: It has \$100 in loans with an interest rate of 5 percent; \$50 in security holdings, paying 10 percent; noninterest income of \$10; \$100 in savings accounts that have an interest rate of 2.5 percent; and other expenses of \$15. What is this bank's total income?

- Answer** ✓ \$20
 \$160
 \$2.50
 \$17.50

[Add Question Here](#)

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

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

Question

Consider a bank with the following income statement: It has \$100 in loans with an interest rate of 5 percent; \$50 in security holdings, paying 10 percent; noninterest income of \$10; \$100 in savings accounts that have an interest rate of 2.5 percent; and other expenses of \$15. What is this bank's total expenses?

- Answer** \$115
 \$20
 ✓ \$17.50
 \$2.50

[Add Question Here](#)

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

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

Question

Consider a bank with the following income statement: It has \$100 in loans with an interest rate of 5 percent; \$50 in security holdings, paying 10 percent; noninterest income of \$10; \$100 in savings accounts that have an interest rate of 2.5 percent; and other expenses of \$15. Its total income is _____, total expense is _____, and profit is _____.

- Answer** ✓ \$20; \$17.50; \$2.50
 \$160; \$115; \$45
 \$100; \$100; \$0
 \$5; \$5; \$0

[Add Question Here](#)

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

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

Question

Consider a bank with the following income statement: It has \$100 in loans with an interest rate of 5 percent; \$50 in security holdings, paying 10 percent; reserves of \$10; \$100 in savings accounts that earn an interest rate of 2.5 percent; checking deposits equal to \$30, a net worth of \$30, and other expenses of \$15. This bank gets a return on its assets of about:

- Answer** 7.5 percent.
 25 percent.
 10 percent.
 ✓ 4.8 percent.

[Add Question Here](#)Question 60 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Consider a bank with the following income statement: It has \$100 in loans with an interest rate of 5 percent; \$50 in security holdings, paying 10 percent; reserves of \$10; \$100 in savings accounts that earn an interest rate of 2.5 percent; checking deposits equal to \$30, a net worth of \$30, and other expenses of \$15. This bank gets a return on its equity of about:

- Answer**
- 25 percent.
 - 4.8 percent.
 - 16.7 percent.
 - 7.5 percent

[Add Question Here](#)Question 61 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

To find a bank's return on its assets, we:

- Answer**
- divide its profits by its capital.
 - divide its profits by its total assets.
 - subtract its total expenses from its total income.
 - divide its total expenses by its total income.

[Add Question Here](#)Question 62 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

To find a bank's return on its equity, we:

- Answer**
- divide its profits by its total assets.
 - divide its profits by its capital.
 - subtract its bank capital from its total income.
 - subtract its bank capital from its profits.

[Add Question Here](#)Question 63 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Which of the following is the correct equation for a bank's return on equity?

- Answer**
- $ROE = \frac{\text{profits}}{\text{capital}}$
 - $ROE = \frac{\text{profits}}{\text{assets}}$
 - $ROE = \text{profits} - \text{capital}$
 - $ROE = \text{total income} - \text{total expenses}$

[Add Question Here](#)Question 64 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Which of the following is the correct equation for a bank's return on assets?

- Answer**
- $ROA = \text{profits} - \text{assets}$
 - $ROA = \frac{\text{profits}}{\text{capital}}$
 - $ROA = \frac{\text{profits}}{\text{assets}}$
 - $ROA = \text{total income} - \text{total expenses}$

[Add Question Here](#)Question 65 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

The return on equity is:

- Answer**
- the ratio of a bank's profits to its capital.
 - the ratio of a bank's profits to its expenses.
 - equal to its after-tax income.
 - equal to net income.

[Add Question Here](#)Question 66 **Multiple Choice** **0 points**[Modify](#) [Remove](#)**Question**

Because the return on equity quantifies how much _____, bank managers endeavor to maximize ROE much like other businesses try to produce high returns for their _____.

- Answer**
- banks earns after taxes; board of directors
 - a bank profits; owners
 - banks earn per dollar that its stockholders own; stockholders
 - banks earn on loans; workers

[Add Question Here](#)Question 67 **Multiple Choice** **0 points**[Modify](#) [Remove](#)

Question

Suppose that a bank has \$200 in assets and \$100 in net worth. It earned \$5 in interest income, \$8 in noninterest income, and paid \$3 on its savings accounts. Its return on assets is ____ and its return on equity is ____.

- Answer**
- 5.6 percent; 13 percent
 - 5 percent; 10 percent
 - 2.5 percent; 3 percent
 - 5.6 percent; 3 percent

[◀ Add Question Here](#)

Question 68 **Multiple Choice**

0 points

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

Question

Suppose that Second Bank of Maine holds securities for \$100 and its loans portfolio is valued at \$200. Off-balance-sheet activities generated income for \$20 this year. If this bank earns 5 percent on its securities and 10 percent on its loans, its interest income for this year is:

- Answer**
- \$5.
 - \$45.
 - \$25.
 - \$20.

[◀ Add Question Here](#)

Question 69 **Multiple Choice**

0 points

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

Question

Suppose that Second Bank of Maine holds securities for \$100 and its loans portfolio is valued at \$200. Off-balance-sheet activities generated income of \$20 this year. If this bank earns 5 percent on its securities and 10 percent on its loans, its noninterest income for this year amounts to:

- Answer**
- \$5.
 - \$45.
 - \$25.
 - \$20.

[◀ Add Question Here](#)

Question 70 **Multiple Choice**

0 points

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

Question

Suppose a bank's interest expenses amount to \$20, its noninterest expenses amount to \$10, and its total income is \$45. This bank's profits are:

- Answer**
- \$30.
 - \$15.
 - \$25.
 - \$10.

[◀ Add Question Here](#)

Question 71 **Multiple Choice**

0 points

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

Question

Suppose a bank's capital is valued at \$20, its assets amount to \$100, and its profits amount to \$5. Which of the following is the return on assets?

- Answer**
- 5 percent
 - 4.16 percent
 - 20 percent
 - 25 percent

[◀ Add Question Here](#)

Question 72 **Multiple Choice**

0 points

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

Question

Suppose a bank's capital is valued at \$20, its assets amount to \$100, and its profits amount to \$5. Which of the following is the return on equity?

- Answer**
- 8.03 percent
 - 4.16 percent
 - 25 percent
 - 5 percent

[◀ Add Question Here](#)

Question 73 **Multiple Choice**

0 points

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

Question

Both the return on assets (ROA) and the return on equity (ROE) have the same numerator:

- Answer**
- off-balance-sheet income.
 - profits.
 - interest income.
 - noninterest income.

[◀ Add Question Here](#)

Question 74 **Multiple Choice**

0 points

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

Question

Which of the following is the "cheapest" source of funds for a commercial bank?

- Answer**
- federal fund borrowing
 - checking deposits
 - discount loans
 - nontransaction account deposits

[◀ Add Question Here](#)

Question 75 **Multiple Choice**

0 points

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

Question

Which of the following is a “core deposit”?

- Answer**
- checking deposits
 - savings deposits
 - small-time deposits
 - ✓ All of the answers are correct.

◀ [Add Question Here](#)

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

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

Question

Which of the following do banks refer to as “purchased funds”?

- Answer**
- ✓ large-time deposits
 - checking deposits
 - savings deposits
 - small-time deposits

◀ [Add Question Here](#)

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

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

Question

One of the reasons for the decline of checking deposits in the mid-1990s was the:

- Answer**
- growth of derivative accounts.
 - ✓ growth of mutual fund accounts.
 - increased use of ATM accounts.
 - decline in the value of the dollar.

◀ [Add Question Here](#)

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

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

Question

Prior to 1980, _____ loans were the largest component of commercial bank loans.

- Answer**
- ✓ commercial and industrial
 - federal fund
 - real estate
 - consumer

◀ [Add Question Here](#)

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

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

Question

The creation of _____ in the late 1970s allowed firms to avoid taking _____ loans from commercial banks.

- Answer**
- AAA bonds; federal fund
 - stocks; commercial
 - ✓ junk bonds; commercial and industrial
 - discount loans; consumer

◀ [Add Question Here](#)

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

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

Question

For commercial banks, real estate loans pay _____ interest rates but _____.

- Answer**
- ✓ higher; have higher default risk
 - lower; have lower default risk
 - zero; are always repaid in full
 - higher; have lower default risk

◀ [Add Question Here](#)

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

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

Question

With the decline in commercial and investment loans has come an increase in:

- Answer**
- federal fund loans.
 - car loans.
 - ✓ real estate loans.
 - All of the answers are correct.

◀ [Add Question Here](#)

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

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

Question

The increased use of credit cards has led to:

- Answer**
- an increased use of ATM cards.
 - ✓ a decline in consumer loans.
 - an increase in consumer loans.
 - higher rates of inflation.

◀ [Add Question Here](#)

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

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

Question

Commercial bank “tying” refers to:

- Answer** ✓ making firms take out loans in return for a bank's underwriting.
 giving households that open savings and checking accounts better interest rates on loans.
 giving favorable interest rates to households that take out both auto and home loans.
 allowing firms access to free checking accounts with a one-million-dollar deposit.

[◀ Add Question Here](#)

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

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

Question

The bank that has "bucked the trend" of relying on off-balance-sheet activities, increased fees, and the use of purchased funds in favor of attracting small checking deposits is:

- Answer**
- the Bank of America.
 - the Commerce Bank.
 - Wells Fargo.
 - the People's Bank.

[◀ Add Question Here](#)

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

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

Question

Banks have increased their profits by:

- Answer**
- increasing overdraft fees.
 - underwriting firms.
 - increasing credit card fees.
 - All the answers increase bank profits.

[◀ Add Question Here](#)

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

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

Question

A bank's purchased funds include all of the following *except*:

- Answer**
- checking deposits.
 - large-time deposits.
 - federal funds.
 - repurchase agreements.

[◀ Add Question Here](#)

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

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

Question

Banks seek to expand their commercial and industrial loans because:

- Answer**
- they are more profitable than consumer loans.
 - they wish to establish an ongoing relationship with firms.
 - there is little competition for commercial loans among banks.
 - they can securitize the loans in the junk-bond market.

[◀ Add Question Here](#)

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

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

Question

Losses on real estate loans were lower for banks than for finance companies during the financial crisis because:

- Answer**
- the banks did not make real estate loans.
 - the finance companies were more tightly regulated than the banks.
 - the banks rationed credit by screening out risky borrowers.
 - the banks did not securitize their loans.

[◀ Add Question Here](#)

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

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

Question

Congress passed the Credit Card Accountability and Responsibility, and Disclosure Act in order to:

- Answer** ✓
- restrict the fees imposed on credit card users.
 - require credit card users to reduce the use of their credit cards.
 - require the banks to provide credit cards to students and other customers with a low income.
 - prevent banks from imposing a fee when transferring a balance from another credit card.

[◀ Add Question Here](#)

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

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

Question

The Credit Card Accountability and Responsibility, and Disclosure Act imposes all of the following restrictions *except*:

- Answer**
- late fees are limited to \$25 in most cases.
 - customers must have at least 21 days to pay bills before being charged a late fee.
 - banks may not impose a fee when a customer transfers credit card balances
 - a penalty rate must return to its previous level if the customer resumes timely payments for at least 6 months.

[◀ Add Question Here](#)

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

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

Question

The main reasons why the banking business has evolved include:

- Answer**
- competition from securities markets.
 - deregulation.
 - financial innovation.
 - ✓ All of the answers are correct.

[◀ Add Question Here](#)

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

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

Question
Which of the following is the cheapest source of funds for banks?

- Answer**
- ✓ checking deposits
 - small-time deposits
 - savings deposits
 - repurchase agreements

[◀ Add Question Here](#)

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

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

Question
Which of the following is the most expensive source of funds for banks?

- Answer**
- checking deposits
 - small-time deposits
 - savings deposits
 - ✓ repurchase agreements

[◀ Add Question Here](#)

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

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

Question
Consider the banks' ability to raise funds. Over time, banks have seen a _____ in their least expensive source of funds and a _____ in their most expensive source of funds.

- Answer**
- rise; fall
 - rise; rise
 - ✓ fall; rise
 - fall; fall

[◀ Add Question Here](#)

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

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

Question
Which of the following statements about commercial and industrial loans is/are true?

- Answer**
- Commercial and industrial loans are short-term loans only.
 - ✓ Before the 1980s, they represented the largest component of bank lending.
 - Commercial and industrial loans are loans to households.
 - All of the answers are true.

[◀ Add Question Here](#)

Question 96 **Multiple Choice** **0 points**

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

Question
_____ grew as a share of bank lending from around 26 percent in 1973 to around 59 percent in 2009.

- Answer**
- ✓ Real estate loans
 - Commercial loans
 - Consumer loans
 - Industrial loans

[◀ Add Question Here](#)

Question 97 **Multiple Choice** **0 points**

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

Question
If many of a bank's depositors wish to withdraw large sums of money at one point in time, the bank faces:

- Answer**
- a bank run.
 - default.
 - ✓ liquidity risk.
 - much more government oversight.

[◀ Add Question Here](#)

Question 98 **Multiple Choice** **0 points**

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

Question
A bank can safely reduce its amount of reserves if:

- Answer**
- ✓ there is little chance that its depositors will make large withdrawals.
 - it is balanced by a large amount of loans.
 - the federal funds rate is very high.
 - interest rates fall.

[◀ Add Question Here](#)

Question 99 **Multiple Choice** **0 points**

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

Question
The cost to a bank of holding too many liquid assets is:

- Answer**
- a very high reserve rate.
 - interest lost on loans and holding securities.
 - not having cash in the vault.
 - leaving it exposed to default risk.

[◀ Add Question Here](#)

Question 100 **Multiple Choice** **0 points**

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

Question
Most short-term bank borrowing is from:

- Answer**
- other banks.
 - the Fed.
 - large pension funds.
 - sweep accounts.

[◀ Add Question Here](#)

Question 101 **Multiple Choice** **0 points**

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

Question
When a bank _____ a loan, it removes it from its balance sheet.

- Answer**
- cashes in
 - buys
 - writes off
 - converts

[◀ Add Question Here](#)

Question 102 **Multiple Choice** **0 points**

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

Question
Interest rate risk occurs because of:

- Answer**
- different maturities of bank assets and liabilities.
 - the volatility of short-term interest rates.
 - the short-term nature of bank borrowing.
 - All contribute to interest rate risk.

[◀ Add Question Here](#)

Question 103 **Multiple Choice** **0 points**

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

Question
If the interest rate on a bank's liabilities rises without an increase in asset interest rates, the bank's:

- Answer**
- return on equity falls.
 - return on assets falls.
 - profits fall.
 - All of the answers are correct.

[◀ Add Question Here](#)

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

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

Question
One measure of interest rate risk is the:

- Answer**
- interest rate volatility.
 - rate-sensitivity gap.
 - federal funds rate.
 - unemployment rate.

[◀ Add Question Here](#)

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

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

Question
The rate-sensitivity gap is equal to the:

- Answer**
- difference between rate-sensitive assets and rate-sensitive liabilities.
 - difference between inflation and interest rates.
 - Fisher relation.
 - difference between money supply growth rates and the federal funds rate.

[◀ Add Question Here](#)

Question 106 **Multiple Choice** **0 points**

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

Question
The rate-sensitivity gap is equal to:

- Answer**
- total income minus total expense.
 - quantity of assets minus quantity of liabilities.
 - rate-sensitive assets minus rate-sensitive liabilities.
 - rate-sensitive assets divided by rate-sensitive liabilities.

[◀ Add Question Here](#)

Question 107 **Multiple Choice** **0 points**

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

Question
A bank's profits are _____ to the _____.

- Answer**
- proportional; rate-sensitivity gap
 - equal; rate-sensitivity gap
 - not related; rate-sensitivity gap

proportional; interest rate gap

[◀ Add Question Here](#)

Question 108 **Multiple Choice** **0 points**

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

Question

If a bank has \$50 of rate-sensitive assets and \$45 in rate-sensitive liabilities, and the interest rate falls from 5 percent to 3 percent, a bank's profits _____ by _____.

- Answer**
- fall; \$0.10
 - rise; \$0.10
 - fall; \$1.00
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 109 **Multiple Choice** **0 points**

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

Question

If a bank has \$50 of rate sensitive assets and \$60 in rate-sensitive liabilities, and the interest rate falls from 5 percent to 3 percent, a bank's profits _____ by _____.

- Answer**
- rise; \$0.20
 - fall; \$0.20
 - rise; \$2.00
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 110 **Multiple Choice** **0 points**

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

Question

When you buy an ARM 3/1 mortgage,

- Answer**
- you have 3 years to pay off the loan with a 1-year penalty if you do not.
 - the interest is initially three points over prime, then adjusts to one point over prime.
 - the interest rate is fixed for 3 years, then adjusts annually.
 - the purchase price of the house can be no more than three times your annual income, and the interest rate is one percentage point over prime.

[◀ Add Question Here](#)

Question 111 **Multiple Choice** **0 points**

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

Question

Market risk arises from:

- Answer**
- business cycle fluctuations.
 - asset price fluctuations.
 - oil price changes.
 - interest rate volatility.

[◀ Add Question Here](#)

Question 112 **Multiple Choice** **0 points**

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

Question

When a bank must sell assets at "fire-sale" prices, it faces _____ risk.

- Answer**
- credit
 - liquidity
 - market
 - interest-rate

[◀ Add Question Here](#)

Question 113 **Multiple Choice** **0 points**

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

Question

Banks often have to sell their loans at fire-sale prices:

- Answer**
- because they know more about the borrower than the institution buying the loan.
 - when their assets exceed their net worth.
 - because they wish to increase their profits.
 - they wish to increase their borrowing from the Federal Reserve.

[◀ Add Question Here](#)

Question 114 **Multiple Choice** **0 points**

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

Question

Banks may have difficulty selling mortgages when:

- Answer**
- most of their liabilities are in checking accounts rather than in savings accounts.
 - the federal funds rate is unusually high.
 - credit scores do not provide good information about credit risk.
 - they have difficulty arranging syndication.

[◀ Add Question Here](#)

Question 115 **Multiple Choice** **0 points**

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

Question

Suppose that a bank has \$40 in vault cash and deposits at the Fed, \$40 in securities and \$80 in loans, \$80 in checking deposits, \$70 in federal funds, and \$10 of net worth. Suppose there is a bank run and customers close their checking accounts. What should the bank do to avoid going out of business?

- I. use its reserves and sells its securities
- II. sell its loans
- III. It cannot avoid going out of business.

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

[◀ Add Question Here](#)

Question 116 **Multiple Choice** **0 points**

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

Question

Suppose that the mortgage default rate turns out to be higher than the bank expected. How does this fact affect a bank's net worth?

- Answer** It reduces it because the bank must write off the value of the loan.
- It reduces it because the bank now has lower liabilities.
 - It increases net worth because the bank earns a higher interest rate on riskier mortgages.
 - It has no impact.

[◀ Add Question Here](#)

Question 117 **Multiple Choice** **0 points**

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

Question

Which of the following is a risk faced by banks?

- Answer**
- free-rider risk
 - adverse risk
 - credit (or default) risk
 - moral risk

[◀ Add Question Here](#)

Question 118 **Multiple Choice** **0 points**

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

Question

When a bank is short of reserves it can:

- Answer** borrow from the Fed.
- borrow from the FDIC.
 - borrow from the Office of the Comptroller of the Currency.
 - borrow from the U.S. Treasury.

[◀ Add Question Here](#)

Question 119 **Multiple Choice** **0 points**

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

Question

When a bank writes off a loan:

- Answer** the bank's stockholders lose money.
- total assets increase.
 - the bank's net worth increases.
 - the bank's balance sheet is not affected.

[◀ Add Question Here](#)

Question 120 **Multiple Choice** **0 points**

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

Question

Which of the following statements about interest rate risk is true?

- Answer**
- An increase in interest rates usually raises banks' profits.
 - Banks' liabilities are not rate sensitive.
 - Banks' assets typically have long maturities.
 - Bank's assets are not rate sensitive.

[◀ Add Question Here](#)

Question 121 **Multiple Choice** **0 points**

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

Question

Suppose the short-term interest rates rises from 2 percent to 5 percent. The change in profits for a bank with a rate-sensitive gap of $-\$50$ is:

- Answer**
- $-\$1.00$.
 - $-\$1.50$.
 - $-\$2.50$.
 - $\$2.50$.

[◀ Add Question Here](#)

Question 122 **Multiple Choice** **0 points**

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

Question

Floating interest rates are used by banks mainly to reduce:

- Answer**
- liquidity risk.
 - credit (or default) risk.
 - market risk.
 - interest rate risk.

[◀ Add Question Here](#)

Question 123 **Multiple Choice** **0 points**

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

Question

A common goal of strategies to deal with interest rate risk is to drive the rate-sensitive gap close to:

- Answer**
- a large negative number.
 - a large positive number.
 - zero.

the amount of total assets.

[Add Question Here](#)

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

Question 124 **Multiple Choice** **0 points**

Question

Which of the following is the equity ratio?

Answer ✓

$$ER = \frac{\text{capital}}{\text{assets}}$$

$$ER = \frac{\text{capital}}{\text{liabilities}}$$

$$ER = \frac{\text{loans}}{\text{capital}}$$

$$ER = \frac{\text{assets}}{\text{liabilities}}$$

[Add Question Here](#)

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

Question 125 **Multiple Choice** **0 points**

Question

If ROA is return on assets, and ROE is return on equity, we can write the equity ratio, ER , as

Answer ✓

$$ER = \frac{ROA}{ROE}$$

$$ER = \frac{ROE}{ROA}$$

$$ER = ROA - ROE$$

There is not enough information provided to answer the question.

[Add Question Here](#)

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

Question 126 **Multiple Choice** **0 points**

Question

Holding assets constant, if the equity ratio rises, the return on equity:

Answer is unchanged.

rises.

✓ falls.

There is not enough information provided to answer the question.

[Add Question Here](#)

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

Question 127 **Multiple Choice** **0 points**

Question

The S&L crisis was caused by the:

Answer fall in the price of oil.

rise in commercial real estate prices.

growing gap between short- and long-term interest rates.

✓ All of the answers are correct.

[Add Question Here](#)

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

Question 128 **Multiple Choice** **0 points**

Question

In the early 1980s, inflation rates soared, pushing up _____, as explained by the _____.

Answer ✓ nominal interest rates; Fisher equation

real interest rates; Friedman hypothesis

unemployment; Phillips curve

mortgage rates; real estate reaction function

[Add Question Here](#)

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

Question 129 **Multiple Choice** **0 points**

Question

The fall in housing prices during the financial crisis caused many homeowners to:

Answer have a mortgage whose value was worth less than the house.

✓ walk away from their houses.

decide to take out a home equity loan.

All of the answers are correct.

[Add Question Here](#)

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

Question 130 **Multiple Choice** **0 points**

Question

A bank's insolvency risk is measured by its:

Answer interest income ratio.

✓ equity ratio.

loan ratio.

noninterest income ratio.

[Add Question Here](#)

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

Question 131 **Multiple Choice** **0 points**

Question

Suppose a bank has an equity ratio equal to 20 percent, and assets totaling \$100. Which of the following events will make this bank insolvent?

Answer

- The bank writes off loans for \$25.
- The bank writes off loans for \$15.
- The bank writes off loans for \$10.
- The bank writes off loans for \$5.

[◀ Add Question Here](#)

Question 132 **Multiple Choice**

0 points

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

Question

Holding capital constant, an increase in assets _____ the equity ratio and _____ the bank's risk of insolvency.

Answer

- increases; decreases
- increases; increases
- decreases; decreases
- decreases; increases

[◀ Add Question Here](#)

Question 133 **Multiple Choice**

0 points

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

Question

Holding profits and assets constant, an increase in a bank's capital _____ the bank's equity ratio and _____ the bank's return on equity.

Answer

- reduces; reduces
- reduces; increases
- increases; reduces
- increases; increases

[◀ Add Question Here](#)

[OK](#)