


Pool Canvas

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Name TestBanks Chapter 10 Multiple-Choice Questions
Description Question pool for TestBanks Chapter 10 Multiple-Choice Questions
Instructions

[Modify](#)

[◀ Add Question Here](#)

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

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

Question

Bank runs are created when:

Answer the Fed declares a bank insolvent.
 depositors lose confidence in a bank.
 a bank's reserves fall to zero.
 interest rates are very low.

[◀ Add Question Here](#)

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

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

Question

When bank owners misuse their depositors' funds, this is called:

Answer a bank run.
 insolvency.
 adverse selection.
 moral hazard.

[◀ Add Question Here](#)

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

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

Question

Bank runs:

Answer can infect both healthy and insolvent banks.
 infect only healthy banks.
 infect only insolvent banks.
 only occur in transition economies.

[◀ Add Question Here](#)

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

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

Question

A bank run is an extreme form of:

Answer credit risk.
 interest rate risk.
 low bank esteem.
 liquidity risk.

[◀ Add Question Here](#)

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

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

Question

Poor information about a bank's balance sheet can lead to:

Answer high interest rates.
 a bank run.
 high inflation rates.
 a bank takeover.

[◀ Add Question Here](#)

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

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

Question

If depositors lose faith in a bank, the severity of bank runs can be compounded by the:

Answer first-come, first-served nature of bank withdrawals.
 policy that large depositors can withdraw their deposits before smaller depositors can.
 existence of deposit insurance.
 large amounts of vault cash.

[◀ Add Question Here](#)

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

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

Question

The order of a bank run is:

Answer fear of a run → depositors withdraw → banks sell assets → capital falls below zero.
 depositors withdraw → banks sell assets → fear of a run → capital falls below zero.
 capital falls below zero → fear of a run → depositors withdraw → banks sell assets.
 banks sell assets → capital falls below zero → fear of a run → depositors withdraw.

[◀ Add Question Here](#)

Question 8	Multiple Choice	0 points	Modify Remove
Question A bank run is the sudden:			
Answer			
<ul style="list-style-type: none"> accumulation of bank capital. withdrawal by the depositors of all banks. ✓ withdrawal by the depositors of a single bank. increase in bank liquidity. 			
			Add Question Here
Question 9	Multiple Choice	0 points	Modify Remove
Question One explanation for a bank run is:			
Answer			
<ul style="list-style-type: none"> adaptive expectations. ✓ self-fulfilling expectations. poor bank management. that rising oil prices mean depositors require more cash. 			
			Add Question Here
Question 10	Multiple Choice	0 points	Modify Remove
Question A suspension of payments:			
<ul style="list-style-type: none"> I. is an opportunity for depositors to calm down. II. gives the bank time to increase its liquid assets. III. gives depositors the opportunity to reassure themselves their bank is solvent. 			
Answer			
<ul style="list-style-type: none"> I only II only III only ✓ I, II, and III 			
			Add Question Here
Question 11	Multiple Choice	0 points	Modify Remove
Question When a bank suspends payments, it:			
Answer			
<ul style="list-style-type: none"> delays the inevitable run on a bank. ✓ changes the psychology of self-fulfilling expectations. gives the bank management time to pay off its shareholders. signals other banks that it is a healthy creditworthy institution. 			
			Add Question Here
Question 12	Multiple Choice	0 points	Modify Remove
Question The Walt Disney movie _____ gives us a little insight into how a bank run can begin.			
Answer			
<ul style="list-style-type: none"> <i>The Lady and the Tramp</i> <i>Wizard of Oz</i> ✓ <i>Mary Poppins</i> <i>Wall Street</i> 			
			Add Question Here
Question 13	Multiple Choice	0 points	Modify Remove
Question The run on the Guta bank in Russia was precipitated by:			
Answer			
<ul style="list-style-type: none"> ✓ the Central Bank of Russia closing a different bank for financing criminal activities. a rumor that the Guta bank had run out of cash. the forced closure of its largest borrower. None of the answers are correct. 			
			Add Question Here
Question 14	Multiple Choice	0 points	Modify Remove
Question In 2007, the British bank _____ experienced the first bank run to occur in the United Kingdom in over 100 years.			
Answer			
<ul style="list-style-type: none"> the First National Bank of Keystone Indymac ✓ Northern Rock Barclays Bank, PLC 			
			Add Question Here
Question 15	Multiple Choice	0 points	Modify Remove
Question A bank panic is the sudden:			
Answer			
<ul style="list-style-type: none"> withdrawal by the depositors of a single bank. ✓ withdrawal by the depositors of many banks. accumulation of bank capital. drop in confidence of a central bank. 			
			Add Question Here
Question 16	Multiple Choice	0 points	Modify Remove

Question

The largest bank failure rate occurred during the:

- Answer** ✓
- early 1930s.
 - late 1970s.
 - early 1890s.
 - mid-2000s.

◀ [Add Question Here](#)

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

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

Question

In 1930, the _____ failed, and because of its name it led to _____.

- Answer** ✓
- Bank of the United States; falling confidence in the whole U.S. bank system.
 - Bank of New York; falling confidence in the U.S. financial system.
 - Federal Reserve Bank of St. Louis; a sharp decline in agricultural prices.
 - People's Bank; numerous worker strikes.

◀ [Add Question Here](#)

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

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

Question

Immediately after being sworn in as president in 1933, _____ declared _____.

- Answer** ✓
- Herbert Hoover; the end of the Great Depression.
 - Franklin D. Roosevelt; a bank holiday.
 - Alexander Hamilton; the establishment of the First Bank of the United States.
 - Harry S. Truman; higher taxes on bank profits.

◀ [Add Question Here](#)

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

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

Question

Roosevelt's statement "we have nothing to fear but fear itself" captures the:

- Answer** ✓
- role of Black Sunday.
 - attitude of most Americans after World War II.
 - hope over the end of the "Great Dustbowl."
 - spirit of self-fulfilling expectations.

◀ [Add Question Here](#)

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

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

Question

A bank has failed when the following occurs:

- I. It must sell its assets at fire-sale prices.
- II. Its liabilities exceed its assets.
- III. It faces a liquidity crisis.

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

◀ [Add Question Here](#)

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

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

Question

Regulators address the problem of bank runs by:

- Answer** ✓
- requiring banks to increase their reserves to cover all deposits.
 - increasing payments.
 - allowing banks to suspend payments.
 - refusing to compensate depositors.

◀ [Add Question Here](#)

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

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

Question

The Northern Rock Bank experienced a bank run in 2007 because:

- Answer** ✓
- the U.S. subprime mortgage crisis created fears that the crisis would spread.
 - the Bank of England acted as a lender of last resort to Northern Rock.
 - the public lost confidence in the bank's ability to meet its liabilities.
 - All of the answers are correct.

◀ [Add Question Here](#)

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

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

Question

A banking panic like the one that occurred in the 1930s is not likely to happen again because:

- Answer** ✓
- depositors are no longer allowed to withdraw their funds simultaneously.
 - the Glass-Steagall Act that separated commercial and investment banking was repealed.
 - the Riegle-Neal Act was passed to prohibit nationwide banking.
 - None of the answers are correct.

◀ [Add Question Here](#)

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

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

Question

The risk of a bank run is an extreme form of:

- Answer**
- portfolio diversification risk.
 - liability risk.
 - ✓ liquidity risk.
 - capital management.

◀ [Add Question Here](#)

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

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

Question

When a bank run occurs:

- Answer**
- only the bank owners are hurt.
 - ✓ both bank owners and deposit holders that are not paid their balances are hurt.
 - only deposit holders that are not paid their balances are hurt.
 - Nobody is hurt.

◀ [Add Question Here](#)

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

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

Question

During a bank panic:

- Answer**
- only insolvent banks are affected.
 - only solvent banks are affected.
 - ✓ all banks, solvent or insolvent, are affected.
 - no banks are affected.

◀ [Add Question Here](#)

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

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

Question

Bank runs are mostly due to:

- Answer** ✓
- depositors' self-fulfilling expectations about a bank's ability to pay back its deposits.
 - Federal Reserve statements about a bank's critical situation.
 - stockholders' assessment of the bank's net worth.
 - excessive regulations by the FDIC.

◀ [Add Question Here](#)

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

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

Question

Which of the following statements about bank runs or panics in the United States is true?

- Answer**
- Bank panics were common during the second half of the twentieth century.
 - ✓ Bank panics were the result of the contagious effect of bank runs.
 - Around 2 percent of all U.S. banks failed in 1933.
 - Bank panics only occurred in the 1940s.

◀ [Add Question Here](#)

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

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

Question

Prior to the recent economic rescue package, the limit on FDIC compensation was on deposits up to:

- Answer**
- \$250,000.
 - \$1 million.
 - ✓ \$100,000.
 - \$10,000.

◀ [Add Question Here](#)

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

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

Question

By insuring bank deposits up to _____, the FDIC reduced the probability of _____.

- Answer**
- \$1 million; a liquidity crisis.
 - ✓ \$100,000; a bank run.
 - \$100,000; banks making risky loans.
 - \$1000; depositors leaving large amounts of money in their checkable deposit accounts.

◀ [Add Question Here](#)

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

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

Question

If there are widespread bank failures and the _____ runs out of funds, the government must bail out failed banks, which is paid for by _____.

- Answer**
- ✓ FDIC; U.S. taxpayers
 - the Fed; bondholders
 - Treasury; bank shareholders
 - Federal Government; U.S. taxpayers

◀ [Add Question Here](#)

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

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

Question

The name of the government agency that insures commercial bank deposits is the:

- Answer**
- Federal Savings and Loan Insurance Corporation.
 - Federal Deposit Insurance Corporation.
 - Federal Reserve System.
 - Office of the Comptroller.

[◀ Add Question Here](#)

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

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

Question

The Federal Deposit Insurance Corporation (FDIC) raised the insurance limit on bank account deposits from ____ to ____ in ____.

- Answer**
- zero; \$25,000; 1932
 - \$25,000; \$100,000; 1933
 - \$100,000; \$250,000; 2008
 - \$250,000; \$1,000,000; 2008

[◀ Add Question Here](#)

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

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

Question

The limit on deposit insurance before 2008 was ____; after 2008 it became ____.

- Answer**
- \$100,000; \$250,000
 - \$40,000; \$100,000
 - \$80,000; \$120,000
 - \$150,000; \$250,000

[◀ Add Question Here](#)

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

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

Question

Which of the following statements about the FDIC is true?

- Answer**
- The FDIC fund was never exhausted.
 - The FDIC fund is financed by premiums charged to banks.
 - The FDIC was created in 1913.
 - The FDIC is in charge of the conduct of monetary policy in the United States.

[◀ Add Question Here](#)

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

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

Question

A system of deposit insurance prevents bank runs primarily by:

- Answer**
- paying off depositors at insolvent banks after a bank run.
 - reassuring depositors their money is safe, so the bank run never occurs.
 - paying off depositors at solvent banks after a bank run.
 - closing banks when there are rumors about a bank's insolvency.

[◀ Add Question Here](#)

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

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

Question

The FDIC has been ____ in preventing bank runs in the United States since its creation in ____.

- Answer**
- very successful; 1933
 - a total failure; 1933
 - very successful; 1913
 - a total failure; 1913

[◀ Add Question Here](#)

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

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

Question

Which of the following statements about deposit insurance is true?

- Answer**
- All countries have a system of deposit insurance similar to the one in the United States.
 - Credit unions' deposits are insured by the FDIC.
 - The FDIC fund was not exhausted in the 2007–2009 financial crisis.
 - Systems of deposit insurance prevent all banks from accepting too much risk.

[◀ Add Question Here](#)

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

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

Question

A system of deposit insurance:

- Answer**
- attracts risk taking in the banking industry.
 - encourages bank managers to make fewer risky loans.
 - reduces moral hazard.
 - increases the likelihood of bank runs.

[◀ Add Question Here](#)

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

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

Question

Deposit insurance increases the effect of:

- Answer**
- interest rate risk.
 - selective depositing.
 - ✓ moral hazard.
 - adverse selection.

[◀ Add Question Here](#)

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

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

Question
Deposit insurance increases which of the following?
I. moral hazard
II. decreased risk taking
III. lower interest rates

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

[◀ Add Question Here](#)

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

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

Question
Deposit insurance leads to:
I. increased risk taking
II. a principal–agent problem
III. looting

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

[◀ Add Question Here](#)

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

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

Question
Deposit insurance gives bankers _____ because they will not have to _____.

- Answer**
- an incentive to make safe loans; monitor loans as closely
 - ✓ an incentive to gamble; bear the full cost of failing
 - a disincentive to make risky loans; charge low interest rates
 - suspend payments; dip into their reserves

[◀ Add Question Here](#)

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

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

Question
Because of the large flow of money into and out of a bank, and because it is very difficult for depositors to monitor bank managers, there are considerable opportunities for:

- Answer**
- finding low interest rates.
 - buying high and selling low.
 - ✓ fraud and embezzlement.
 - hedging risk.

[◀ Add Question Here](#)

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

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

Question
When bank regulators investigated the First National Bank of Keystone in West Virginia, the bank's executives:

- Answer**
- burned fraudulent loan applications.
 - ✓ buried two truckloads of documents on a ranch.
 - sold off nonperforming loans for cents on the dollar.
 - staged a fake bank robbery.

[◀ Add Question Here](#)

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

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

Question
Perhaps perversely, the threat of a bank run:

- Answer**
- creates a need for deposit insurance.
 - encourages banks to make risky loans.
 - creates moral hazard.
 - ✓ discourages banks from misusing its assets.

[◀ Add Question Here](#)

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

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

Question
A study by the IMF and the World Bank found that the:

- Answer**
- ✓ negative effects of deposit insurance outweighed the positive effects.
 - positive effects of deposit insurance outweighed the negative effects.
 - negative effects of deposit insurance equaled the positive effects.
 - richer nations had more bank failures than poorer ones.

[◀ Add Question Here](#)

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

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

Question

Though an IMF/World Bank study found that _____, the results depend on the _____.

Answer ✓ negative effects of deposit insurance outweighed the positive effects; amount of bank regulation
 positive effects of deposit insurance outweighed the negative effects; size of the bank
 larger banks fail less than small ones; size of risky loans
 risky loans are more likely to be made by large banks; value of checkable deposits

◀ [Add Question Here](#)

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

Question 49 **Multiple Choice**

0 points

Question

Moral hazard is also known as the principal–agent problem because:

Answer ✓ bankers have incentives to engage in activities that hurt depositors.
 depositors have incentives to engage in activities that hurt bankers.
 bankers tend to engage in conservative practices that reduce their profits and hurt shareholders.
 bankers do not shift their risky activities off the balance sheet.

◀ [Add Question Here](#)

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

Question 50 **Multiple Choice**

0 points

Question

Suppose that a bank has \$20 in deposits, and \$100 in assets. It has no other assets or liabilities. The bank enters into a derivative transaction that has a 50 percent chance of earning \$100 and a 50 percent chance of losing \$100. If the bank wins the gamble, its net worth rises to ___ and it can increase its lending by ___. If the bank loses the gamble, its net worth falls to ___ and ___.

Answer

- \$100; \$100; −\$100; it is insolvent
- \$120; \$100; −\$20; it is illiquid
- \$180; \$100; −\$20; it is insolvent
- \$120; \$20; −\$100; it is insolvent

◀ [Add Question Here](#)

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

Question 51 **Multiple Choice**

0 points

Question

Deposit insurance creates a moral hazard because it:

Answer

- eliminates depositors' incentives to monitor banks.
- reduces the cost of a bank failure for depositors.
- encourages depositors to leave their funds in a weak bank.
- All of the answers are correct.

◀ [Add Question Here](#)

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

Question 52 **Multiple Choice**

0 points

Question

Which of the following include(s) common misuse of deposits?

Answer

- looting
- making loans to risky projects
- speculating with high-risk off-balance-sheet activities (e.g., derivatives)
- All of the listed options include common misuses.

◀ [Add Question Here](#)

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

Question 53 **Multiple Choice**

0 points

Question

Deposit insurance _____ depositors' incentives to monitor banks, thereby _____ moral hazard problems.

Answer

- eliminates; eliminating
- increases; increasing
- increases; eliminating
- eliminates; increasing

◀ [Add Question Here](#)

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

Question 54 **Multiple Choice**

0 points

Question

Large depositors _____ from bank failures and therefore _____ incentives to monitor banks and withdraw their funds at the first sign of misuse.

Answer

- stand to lose; have
- stand to lose; do not have
- have nothing to lose; have
- have nothing to lose; do not have

◀ [Add Question Here](#)

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

Question 55 **Multiple Choice**

0 points

Question

Empirical evidence about the link between deposit insurance and banking crisis found that:

Answer

- deposit insurance always decreases the chance of a banking crisis.
- deposit insurance always increases the chance of a banking crisis.
- the effects of deposit insurance on a banking crisis depend on other bank regulations.
- weak bank supervision makes deposit insurance less likely to produce a banking crisis.

◀ [Add Question Here](#)

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

Question 56 **Multiple Choice**

0 points

Question

Which of the following statements about deposit insurance is true?

- Answer**
- More deposit insurance decreases moral hazard.
 - Economists agree that the best level of deposit insurance is the equivalent of \$100,000 for all countries.
 - ✓ More deposit insurance makes bank runs less likely.
 - Weak banking regulation increases the effectiveness of deposit insurance.

◀ [Add Question Here](#)

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

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

Question

A bank charter is a:

- Answer**
- contract between a bank and a depositor.
 - set of rules a bank must follow.
 - ✓ government license to operate a bank.
 - set of guidelines for repaying a loan.

◀ [Add Question Here](#)

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

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

Question

Banks chartered by the federal government are called _____, and banks chartered by a state are called _____.

- Answer**
- federal banks; local banks
 - ✓ national banks; state banks
 - commercial banks; community banks
 - federal banks; state banks

◀ [Add Question Here](#)

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

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

Question

By forcing new banks to obtain a bank charter, the government is trying to minimize _____, much as a bank _____.

- Answer**
- liquidity risk; requires a minimum deposit
 - moral hazard; requires collateral for its loans
 - ✓ adverse selection; screens new borrowers
 - moral hazard; must hold capital

◀ [Add Question Here](#)

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

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

Question

Which of following are required for bank charter application?

- I. expected earnings
- II. initial bank capital
- III. list of new customers

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

◀ [Add Question Here](#)

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

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

Question

Because of the _____, Microsoft cannot merge with Bank of America.

- Answer**
- Sarbanes-Oxley Act
 - Sherman Antitrust Act
 - Glass-Steagall Act
 - ✓ Bank Holding Company Act

◀ [Add Question Here](#)

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

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

Question

A(n) _____ is a financial institution that offers many of the same services as a commercial bank but that is owned by a nonfinancial firm.

- Answer**
- credit union
 - ✓ industrial loan company
 - investment bank
 - hedge fund

◀ [Add Question Here](#)

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

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

Question

When Walmart applied for an ILC charter in 2005, the strongest opposition came from:

- Answer**
- labor unions.
 - ✓ community banks.
 - state regulators.
 - health care advocates.

◀ [Add Question Here](#)

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

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

Question

After its unsuccessful bid to get an ILC charter in _____, Walmart was able to get a bank charter in _____.

Answer

- New York; Canada
- California; Texas
- Colorado; New Mexico
- Utah; Mexico

[◀ Add Question Here](#)

Question 65

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Regulators maintain the separation between banks and nonfinancial firms through the:

Answer

- Glass-Steagall Act.
- Bank Holding Company Act.
- the Riegle-Neal Act.
- There is no separation between banks and nonfinancial firms.

[◀ Add Question Here](#)

Question 66

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Regulators did not allow Walmart to ____ but they did allow Walmart to ____.

Answer

- enter the banking business in Canada; enter the banking business in Mexico
- do business in Utah; do business in California
- cash checks inside the store; open a bank account
- obtain a charter for an Industrial Loan Corporation; create a partnership with a bank

[◀ Add Question Here](#)

Question 67

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

A commercial bank or savings institution can be chartered by:

Answer

- the Federal Reserve System only.
- either the Office of the Comptroller of the Currency or by a state chartering agency.
- the Office of the Comptroller of the Currency only.
- states chartering agencies only.

[◀ Add Question Here](#)

Question 68

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Banks chartered by the Office of the Comptroller of the Currency are called:

Answer

- controlled banks.
- national banks.
- state banks.
- community banks.

[◀ Add Question Here](#)

Question 69

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Credit unions are chartered by:

Answer

- either the National Credit Union Administration or by a state agency.
- the National Credit Union Administration only.
- state agencies only.
- the Office of the Comptroller of the Currency only.

[◀ Add Question Here](#)

Question 70

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Much of the chartering process centers on:

Answer

- the bank's business plan.
- the level of original bank capital.
- the geographical distribution of branches.
- a review of key personnel.

[◀ Add Question Here](#)

Question 71

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

In the process of granting a bank charter, bank regulators usually:

Answer

- examine applicant's careers and interview past employers.
- do not care about the background of anyone buying large shares of a bank.
- do not investigate prospective bank managers.
- focus on the business plan of the bank only.

[◀ Add Question Here](#)

Question 72

Multiple Choice**0 points**

[Modify](#)

[Remove](#)

Question

Supporters of the separation between banking and commerce argue that mixing banking and commerce might result in:

- Answer** ✓ conflicts of interest.
decreased risk of a bank's defaulting.
increased efficiency of the economy.
decreased incentives to become a merchant.

◀ [Add Question Here](#)

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

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

Question

Supporters of mixing banking and commerce argue that:

- Answer** it increases firms' costs by combining different business activities.
✓ the European experience shows that there are no disastrous consequences of allowing this mix.
it prevents firms from exploiting economies of scope.
the Asian experience shows that bank failures increase when this mix is allowed.

◀ [Add Question Here](#)

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

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

Question

After a bank receives a charter, it is regulated to prevent:

- Answer** liquidity risk.
adverse selection.
✓ moral hazard.
aggressive borrowing.

◀ [Add Question Here](#)

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

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

Question

_____ banks are required to join the Federal Reserve System; for _____ banks it is _____.

- Answer** ✓ National; state; optional
Federal; national; mandatory
State; federal; optional
National; investment; mandatory

◀ [Add Question Here](#)

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

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

Question

The _____ regulates commercial national banks, and the _____ regulates commercial state banks.

- Answer** Federal Reserve; state agencies
✓ Office of the Comptroller; Federal Reserve and state agencies
federal government; Federal Reserve
Treasury Department; Office of the Comptroller

◀ [Add Question Here](#)

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

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

Question

Commercial bank regulators restrict the _____ and impose _____.

- Answer** ✓ types of securities banks can own; capital requirements
riskiness of all bank loans; interest rate floors
amount of dollars on deposit; excess vault cash restrictions
the size of bank buildings; returns on asset requirements

◀ [Add Question Here](#)

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

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

Question

Which of the following securities cannot be owned by a commercial bank?

- Answer** AAA corporate bonds
government securities
✓ junk bonds
municipal bonds

◀ [Add Question Here](#)

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

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

Question

One agreement that endeavors to standardize international banking regulations is the:

- Answer** WTO Accord.
UN Bank Accord.
✓ Basel Accord.
IMF Accord.

◀ [Add Question Here](#)

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

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

Question

American national banks must limit the size of any given loan to _____ or less of total bank capital.

- Answer** 50 percent
✓ 25 percent
10 percent

5 percent

[◀ Add Question Here](#)

Question 81 Multiple Choice 0 points

[Modify](#) [Remove](#)**Question**

Lower levels of bank capital _____ and creates _____.

- Answer** ✓ raises return on equity; moral hazard
 lowers return on equity; moral hazard
 increases net worth; adverse selection
 raises return on assets; adverse selection

[◀ Add Question Here](#)

Question 82 Multiple Choice 0 points

[Modify](#) [Remove](#)**Question**

The rule that stipulates the minimum level of capital is called:

- Answer** return on capital.
 ✓ capital requirements.
 minimum capital.
 lowest capital level.

[◀ Add Question Here](#)

Question 83 Multiple Choice 0 points

[Modify](#) [Remove](#)**Question**

To ensure that banks stay healthy and keep _____ low, bank regulators impose _____.

- Answer** ✓ insolvency risk; capital requirements
 credit risk; an interest rate floor
 interest rate risk; minimum inflation rate requirements
 liquidity risk; excess reserve requirements

[◀ Add Question Here](#)

Question 84 Multiple Choice 0 points

[Modify](#) [Remove](#)**Question**

The Basel Accord set international standards for:

- Answer** interest rate volatility.
 reserve ratios.
 ✓ bank capital requirements.
 loan risk.

[◀ Add Question Here](#)

Question 85 Multiple Choice 0 points

[Modify](#) [Remove](#)**Question**

To promote _____ in an international banking system, the Basel Accord sets international standards for _____.

- Answer** competition; reserve requirements
 ✓ competition; capital requirements
 consumer rights; loan interest rates
 safety; time a bank employee can spend working on a computer

[◀ Add Question Here](#)

Question 86 Multiple Choice 0 points

[Modify](#) [Remove](#)**Question**

A consequence of the Basel Accord is for countries to adopt:

- Answer** ✓ strong capital requirements.
 low return to assets.
 low interest rates.
 high reserve ratios.

[◀ Add Question Here](#)

Question 87 Multiple Choice 0 points

[Modify](#) [Remove](#)**Question**

U.S. capital requirements mandate a _____ minimum capital–assets ratio.

- Answer** 0 percent
 10 percent
 ✓ 5 percent
 50 percent

[◀ Add Question Here](#)

Question 88 Multiple Choice 0 points

[Modify](#) [Remove](#)**Question**

The Basel Accord requires that banks hold capital of at least _____ of _____.

- Answer** 5 percent; total assets
 ✓ 8 percent; risk-adjusted assets
 0 percent; deposits
 50 percent; total loans

[◀ Add Question Here](#)

Question 89 Multiple Choice 0 points

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

Question

In the Basel Accord, the risk-adjusted asset with the lowest weight is:

- Answer**
- municipal bonds.
 - loans to other banks.
 - Treasury bonds.
 - consumer loans.

[◀ Add Question Here](#)

Question 90

Multiple Choice**0 points**

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

Question

If a bank's assets are \$200 and the value of its weighted assets is \$125, which is the more restrictive capital requirement: the U.S. minimum equity ratio or the Basel Accord requirement?

- Answer**
- They are the same.
 - The United States ratio is the most restrictive.
 - The Basel Accord is the most restrictive.
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 91

Multiple Choice**0 points**

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

Question

If a bank's assets are \$200 and the value of its weighted assets is \$100, which is the more restrictive capital requirement, the U.S. minimum equity ratio or the Basel Accord requirement?

- Answer**
- The Basel Accord is the more restrictive.
 - They are the same.
 - The U.S. ratio is the more restrictive.
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 92

Multiple Choice**0 points**

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

Question

If a bank's assets are \$200 and the value of its weighted assets is \$125, the capital requirements under the U.S. minimum equity ratio is _____, and the Basel Accord requirement is _____.

- Answer**
- \$16; \$6.25
 - \$10; \$10
 - \$16; \$10
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 93

Multiple Choice**0 points**

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

Question

If a bank's assets are \$200, what are the capital requirements under the U.S. minimum equity ratio and the Basel Accord requirement?

- Answer**
- the United States: \$10; the Basel Accord: \$16
 - the United States: \$16; the Basel Accord: \$10
 - the United States: \$10; the Basel Accord: \$10
 - There is not enough information provided to answer the question.

[◀ Add Question Here](#)

Question 94

Multiple Choice**0 points**

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

Question

Basel 2 differs from the original Basel Accords in that Basel 2:

- Answer**
- gives banks the chance to own stocks.
 - allows different risk weights for the same kind of bond.
 - no longer has a capital requirement.
 - requires bank to provide full disclosure.

[◀ Add Question Here](#)

Question 95

Multiple Choice**0 points**

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

Question

The Basel Accord _____ whereas Basel 2 _____.

- Answer**
- lumped together similar classifications of bonds; treats classifications of bonds as having different levels of risk.
 - gave stocks a 20 percent weight; increased the weight to 50 percent
 - had zero capital requirements; increased them based on the total value of assets.
 - was held in Switzerland; was held in Chicago, IL.

[◀ Add Question Here](#)

Question 96

Multiple Choice**0 points**

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

Question

Whereas the Basel Accord imposed _____, Basel 2 allows _____.

- Answer**
- a capital equity ratio of 5 percent; zero capital requirements
 - a 20 percent weight on stocks; individual countries to increase the weight to 50 percent, if they choose
 - the same capital requirement across countries; individual countries to adjust capital requirements based on local conditions.
 - a system of fixed exchange rates; exchange rates to float

[◀ Add Question Here](#)

Question 97

Multiple Choice**0 points**

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

Question

Basel 2 is not a binding set of restrictions; _____ regulators have begun to adopt Basel 2, but _____ is(are) hesitant.

Answer

- Mexican; Canada
- European; the United States
- American; China and Russia
- African; Latin America

[◀ Add Question Here](#)

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

Question 98

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

The Dodd-Frank Act modified the regulation of bank and savings institutions by:

- Answer** transferring regulation of savings institutions to the Office of the Comptroller of the Currency.
 requiring credit unions to be regulated under the National Credit Union Administration.
 allowing the FDIC to increase its oversight of all commercial banks and savings institutions.
 requiring all national banks to join the Fed system.

[◀ Add Question Here](#)

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

Question 99

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

The Dodd-Frank Act addressed the subprime mortgage–lending problem by:

- I. requiring banks to verify borrowers' income.
- II. prohibiting banks from investing in mortgage-backed securities.
- III. increasing minimum capital requirements.

Answer

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

[◀ Add Question Here](#)

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

Question 100

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

The Basel Accords failed to prevent the financial crisis of 2007–2009 because:

- Answer** the rules were too easy to circumvent.
 countries did not have time to adopt the modified Basel 2 rules.
 the United States and European countries did not agree on the rules.
 banks did not have sufficient flexibility to meet the capital requirements.

[◀ Add Question Here](#)

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

Question 101

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

A structured investment vehicle (SIV) was perceived as safe because:

- Answer** it owned large quantities of mortgage-backed securities.
 it was highly regulated.
 it had strong links to the banks.
 its assets had a low risk.

[◀ Add Question Here](#)

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

Question 102

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

Structured investment vehicles ran into difficulties in the financial crisis of 2007–2009 when:

- Answer** the SIVs became independent companies.
 they were not able to roll over their debt.
 banks brought the SIVs onto their balance sheets.
 the U.S. government refused to provide it with assistance under the Troubled Asset Relief Program.

[◀ Add Question Here](#)

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

Question 103

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

A state-chartered bank, which is not a member of the Federal Reserve System, is regulated by:

- Answer** the Office of the Comptroller of the Currency.
 the state agency that chartered it.
 the FDIC.
 the state agency that chartered it and the FDIC.

[◀ Add Question Here](#)

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

Question 104

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

Bank regulations prohibit banks from holding:

- Answer** stock in any company.
 U.S. Treasury bonds.
 highly rated corporate bonds.
 U.S. Treasury bills.

[◀ Add Question Here](#)

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

Question 105

Multiple Choice**0 points**

Question

In the United States, the minimum ratio of capital to assets is set at:

- Answer**
- 10 percent.
 - 5 percent.
 - 8 percent.
 - 2 percent.

[◀ Add Question Here](#)

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

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

Question

Which of the following statements about structured investment vehicles (SIVs) is true?

- Answer**
- The primary purpose of SIVs was to increase capital requirements.
 - Before the 2007–2009 crisis, SIVs created a steady stream of profits for sponsoring banks.
 - SIVs were completely independent from the banks that created them.
 - SIVs are safer than U.S. Treasury bonds.

[◀ Add Question Here](#)

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

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

Question

The quarterly financial statement that provides regulators with information about a bank's balance sheet and income statement is called a:

- Answer**
- CAMELS sheet.
 - bank audit.
 - call report.
 - financial statement.

[◀ Add Question Here](#)

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

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

Question

When regulators examine a call report, they look for:

- I. declining capital.
- II. increases in risk-free loans.
- III. the amount of vault cash.

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

[◀ Add Question Here](#)

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

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

Question

Bank examiners utilize which of the following when doing a bank examination?

- I. unannounced examinations
- II. manager interviews
- III. examining internal memos

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

[◀ Add Question Here](#)

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

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

Question

In the CAMELS rating given at annual bank examinations, the L stands for:

- Answer**
- liabilities.
 - liquidity.
 - loans.
 - leverage.

[◀ Add Question Here](#)

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

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

Question

Which of the following is NOT represented in the acronym CAMELS?

- Answer**
- credit
 - asset quality
 - liquidity
 - earnings

[◀ Add Question Here](#)

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

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

Question

The “grades” that regulators give banks are called _____ ratings.

- Answer**
- LION
 - FDIC
 - CAMELS
 - MONEY

[◀ Add Question Here](#)

- Question 113 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
The "sensitivity" grade in the CAMELS rating measures sensitivity to:
- Answer**
- market risk.
 - market and interest rate risk.
 - inflation risk.
 - a bank run.
- [Add Question Here](#)
- Question 114 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
If bank regulators give a bank a(n) _____ score of _____ or higher, the bank is required to reduce risk and improve its score.
- Answer**
- CAMELS; 3
 - CAMELS; 4
 - MONEY; 3
 - ACME; 2
- [Add Question Here](#)
- Question 115 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
If bank regulators find evidence of criminal activity in a bank, such as embezzlement, they turn the case over to the:
- Answer**
- Banking Commission.
 - Secret Service.
 - Federal Reserve Board.
 - FBI.
- [Add Question Here](#)
- Question 116 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Which of the following can banks do to reduce excessive risk if found to have a high CAMELS score?
- Answer**
- cut dividends
 - fire managers
 - slow the growth of assets
 - All of the answers are correct.
- [Add Question Here](#)
- Question 117 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Which of the following is the bank regulators' means of dealing with the moral hazard problem?
- Answer**
- decreasing capital requirements
 - encouraging banks to accept more risk
 - supervising banks.
 - screening entrepreneurs when they ask for a bank charter
- [Add Question Here](#)
- Question 118 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Bank regulators gather information about banks through:
- Answer**
- bank examinations.
 - call reports.
 - analysis of a bank's purchases of securities.
 - bank examinations and call reports
- [Add Question Here](#)
- Question 119 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
Everything else being the same, a bank that pays large dividends to stockholders might be _____ its capital, causing its CAMELS rating to _____.
- Answer**
- depleting; improve
 - depleting; get worse
 - increasing; improve
 - increasing; get worse
- [Add Question Here](#)
- Question 120 **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question**
When assessing a bank's asset quality, bank regulators consider which of the following?
- Answer**
- the term structure of loans
 - whether a bank's reserves are mostly composed of cash or checks in the process of collection
 - the general policy for loan approvals
 - whether the bank is raising funds by offering mostly checking or savings accounts
- [Add Question Here](#)
- Question 121 **Multiple Choice** **0 points** [Modify](#) [Remove](#)

Question

_____ is a bank regulator's choice not to shut down an insolvent bank.

- Answer**
- Forbearance
 - Reassurance
 - Relief
 - Decision

[◀ Add Question Here](#)

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

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

Question

Because shutting down a bank _____, bank regulators are tempted to place an insolvent bank in forbearance.

- Answer**
- is costly to depositors who may lose a portion of their deposits
 - is embarrassing to bank examiners
 - means lost jobs
 - All of the answers are correct.

[◀ Add Question Here](#)

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

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

Question

In the 1990s, Japanese bank regulators allowed insolvent banks to _____, artificially increasing bank assets.

- Answer**
- inflate their bank capital
 - write off bad loans
 - value stocks at the price they paid for them
 - None of the answers are correct.

[◀ Add Question Here](#)

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

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

Question

In the 1980s, many S&Ls gambled for _____ by _____.

- Answer** resurrection; making high-risk loans.
- solvency; increasing mortgage loans.
 - forbearance; "cooking" their books
 - higher CAMELS ratings; reducing their risky loans

[◀ Add Question Here](#)

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

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

Question

When regulators decided to allow insolvent S&Ls to continue to operate rather than shutting them down, it followed a policy of:

- Answer**
- resurrection.
 - forbearance.
 - floating.
 - prevention.

[◀ Add Question Here](#)

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

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

Question

The decision by regulators during the S&L crisis to offer _____ led to increased risky loan making because of the problem of _____.

- Answer** forbearance; moral hazard
- resurrection; adverse selection
 - forbearance; adverse selection
 - floating; low security returns

[◀ Add Question Here](#)

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

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

Question

President Reagan's policy of _____ led to a(n) _____.

- Answer**
- no bank regulation; increase in interest rates
 - increasing bank regulation; increase in regulatory forbearance
 - reducing bank regulation; decline in bank examinations
 - increasing bank regulation; fall in risky loans

[◀ Add Question Here](#)

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

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

Question

The infamous "Keating Five" were five _____ who received approximately _____ from the Lincoln Savings and Loan.

- Answer** U.S. senators; \$1.3 million in campaign contributions
- S&L presidents; \$500,000 in bribes
 - U.S. congressmen; \$500,000 in bribes
 - presidential aides; \$1.3 million in bribes

[◀ Add Question Here](#)

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

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

Question

To address the S&L Crisis in 1989, Congress established the _____ and abolished the _____.

- Answer** Resolution Trust Corporation; Federal Savings and Loan Insurance Corporation
 Resolution Trust Corporation; Federal Home Loan Bank Board
 Federal Home Loan Bank Board; Resolution Trust Corporation
 Federal Savings and Loan Corporation; Federal Home Loan Bank Board

[◀ Add Question Here](#)

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

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

Question

When a national bank is closed down, the _____ calls in the _____, which becomes a receiver for the bank.

- Answer** RTC; FHLBB
 Federal Reserve; FSLIC
 FDIC; FSLIC
 Office of the Comptroller of the Currency; FDIC

[◀ Add Question Here](#)

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

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

Question

The Treasury Department helped keep the banking system _____ during the financial crisis by _____.

- Answer** liquid; providing equity
 liquid; increasing deposit insurance
 solvent; injecting capital
 solvent; closing insolvent banks

[◀ Add Question Here](#)

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

Question 132 **Multiple Choice** **0 points**

Question

The largest bank failure in U.S. history occurred when _____ failed and the FDIC sold its assets and deposits to _____.

- Answer** Lehman Brothers; Barclay's Bank
 Bear Stearns; JPMorgan Chase
 Washington Mutual; JPMorgan Chase
 Merrill Lynch; Bank of America

[◀ Add Question Here](#)

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

Question 133 **Multiple Choice** **0 points**

Question

Which of the following includes consequences of the purchase and assumption method of dealing with an insolvent bank?

- Answer** The FDIC sells most of the assets and liabilities of the insolvent bank to another bank.
 Depositors lose their deposits and bank branches close.
 The FDIC sells the insolvent bank's liabilities and earns a profit.
 The bank keeps its original name.

[◀ Add Question Here](#)

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

Question 134 **Multiple Choice** **0 points**

Question

Which of the following is a consequence of the payoff method of dealing with an insolvent bank?

- Answer** The FDIC sells the bank's assets for as much as it can get to pay off depositors.
 The insolvent bank remains open under a new management.
 The FDIC fund is not affected.
 Small depositors lose 50 percent of their deposits.

[◀ Add Question Here](#)

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

Question 135 **Multiple Choice** **0 points**

Question

When the FDIC uses the purchase and assumption method:

- Answer** it advertises the deal two weeks before revoking the bank charter.
 it pays off depositors and closes the failed bank.
 it usually tries to close the failed bank on a Friday afternoon so that it can reopen on a Monday morning.
 small depositors lose 75 percent of their deposits.

[◀ Add Question Here](#)

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

Question 136 **Multiple Choice** **0 points**

Question

The policy of regulatory forbearance _____ the costs of closing banks, as demonstrated by the _____.

- Answer** increases; banking crisis of 1907
 increases; savings and loans crisis of the 1980s
 decreases; savings and loans crisis of the 1980s
 decreases; banking crisis of 1907

[◀ Add Question Here](#)

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

Question 137 **Multiple Choice** **0 points**

Question

Bank failures are costly because:

- Answer** managers lose their jobs.
 bank owners lose any chance for future profits.
 depositors lose their uninsured funds.

✓ All of these make bank failures costly.

[◀ Add Question Here](#)

OK