

## TEST BANK

This part of the *Instructor's Manual* presents a test bank of true/false statements, multiple choice questions, and, where appropriate, additional problems. The problems are similar to those in the text and may be used for additional assignments or test questions.

## TEST BANK\*

### Part 1 Financial Institutions

- Chapter 2 The Role of Financial Markets and Financial Intermediaries ..
- Chapter 3 Investment Banking ..
- Chapter 4 Securities Markets.....
- Chapter 5 The Federal Reserve ..
- Chapter 6 International Currency Flows.....

### Part 2 Financial Tools

- Chapter 7 The Time Value of Money.....
- Chapter 8 Risk and Its Measurement.....
- Chapter 9 Analysis of Financial Statements.....

### Part 3 Investments

- Chapter 10 The Features of Stock.....
- Chapter 11 Stock Valuation.....
- Chapter 12 The Features of Long-term Debt - Bonds
- Chapter 13 Bond pricing and Yields.....
- Chapter 14 Preferred Stock.....
- Chapter 15 Convertible Securities.....
- Chapter 16 Investment Returns.....
- Chapter 17 Investment Companies.....

### Part 4 Corporate Finance

- Chapter 18 Forms of Business and Corporate Taxation....
- Chapter 19 Break-even Analysis and the Payback Period....
- Chapter 20 Leverage.....
- Chapter 21 Cost of Capital.....
- Chapter 22 Capital Budgeting.....
- Chapter 23 Forecasting.....
- Chapter 24 Cash Budgeting.....
- Chapter 25 Management of Current Assets.....
- Chapter 26 Management of Short-term Liabilities.....
- Chapter 27 Intermediate-Term Debt and Leasing.....

### Part 4 Derivatives

- Chapter 28 Options: Puts and Calls.....
- Chapter 29 Futures and Swaps.....

**\*Note: There are no testbanks for Chapters 1, 22 and 24**

## Chapter 2

### THE ROLE OF FINANCIAL MARKETS AND FINANCIAL INTERMEDIARIES

#### TRUE/FALSE

- F 1. The power to create money is given by the Constitution to the Federal Reserve.
- F 2. Since M-2 excludes time deposits, M-2 is a less comprehensive measure of the money supply than M-1.
- T 3. When individuals withdraw cash from checking accounts, the money supply is unaffected.
- F 4. The yield curve relates risk and interest rates.
- T 5. During most historical periods, the yield curve has been positively sloped.
- T 6. What serves for money in France may not be money in another country.
- F 7. The U.S. Treasury creates most of the nation's money supply.
- F 8. When individuals deposit cash in a demand deposit, the money supply is reduced.
- F 9. M-1 includes savings accounts in commercial banks.
- F 10. A financial intermediary transfers funds from borrowers to lenders by creating claims on itself.
- T 11. When cash is deposited in a checking account, the reserves of commercial banks are increased.
- F 12. When funds are deposited in a savings account, the excess reserves of banks are unaffected.
- F 13. Large certificates of deposit in units of \$500,000 are insured by FDIC.
- T 14. In general, banks prefer loans that stress liquidity and safety.

F 15. Insurance companies are a major source of loans to individuals.

T 16. Money market mutual funds invest in short-term securities like U.S. Treasury bills.

F 17. An increase in interest rates tends to reduce the earnings of money market mutual funds.

T 18. A pension plan that invests in the stock of IBM or Verizon does not perform the function of a financial intermediary.

F 19. Investments in money market mutual funds are insured up to \$100,000 by the federal government.

T 20. A financial intermediary creates claims on itself, when it accepts depositors' funds.

#### MULTIPLE CHOICE

- a 1. M-1 includes coins, currency, and \_\_\_\_\_.
  - a. demand deposits
  - b. savings accounts
  - c. certificates of deposit
  - d. time deposits
- b 2. The power to create money is given by the Constitution to
  - a. state governments
  - b. Congress
  - c. the Federal Reserve
  - d. commercial banks
- c 3. The term structure of interest rates relates
  - a. risk and yields
  - b. yields and credit ratings
  - c. term and yields
  - d. stock and bond yields

- b 4. The term structure of interest rates indicates the
  - a. relationship between risk and yields
  - b. relationship between the time and yields
  - c. the difference between borrowing and lending
  - d. the difference between the yield (interest rate) on government and corporate debt
  
- c 5. Money serves as
  - a. a substitute for equity
  - b. a precaution against inflation
  - c. a medium of exchange
  - d. a risk-free liability
  
- d 6. M-2 includes
  - 1. demand deposits
  - 2. savings accounts
  - 3. small certificates of deposit
    - a. 1 and 2
    - b. 2 and 3
    - c. 1 and 3
    - d. all three
  
- a 7. Which of the following is not a financial intermediary?
  - a. New York Stock Exchange
  - b. Washington Savings and Loan
  - c. First National City Bank
  - d. Merchants Savings Bank
  
- a 8. The assets of a typical commercial bank include
  - a. commercial loans
  - b. demand deposits
  - c. common stock
  - d. equity
  
- a 9. Federally insured investments include
  - a. savings accounts in national commercial banks
  - b. certificates of deposit in excess of \$500,000
  - c. life insurance policies
  - d. commercial bank assets

- b 10. The primary assets of life insurance companies include
  - a. life insurance
  - b. corporate securities
  - c. municipal securities
  - d. insurance policies
  
- a 11. A pension plan that grants mortgage loans
  - a. is an example of a financial intermediary
  - b. cannot suffer losses
  - c. is called a savings and loan association
  - d. is not a financial intermediary
  
- c 12. Money market mutual funds invest in
  - a. corporate bonds
  - b. corporate stock
  - c. federal government Treasury bills
  - d. federal government Treasury bonds
  
- b 13. A financial intermediary transfers
  - a. savings to households
  - b. savings to borrowers
  - c. stocks to brokers
  - d. new stock issues to buyers
  
- b 14. Treasury bills are
  - a. long-term securities issued by the federal government
  - b. short-term securities issued by the federal government
  - c. long-term securities issued by money market mutual funds
  - d. short-term securities issued by money market mutual funds