Faculty of Commerce- English Section

Department of Economics

E216: Money and Banking

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Tutorial on Chapter 1: ***Why we study money, banking and financial markets***
Economics of Money, Banking, and Fin. Markets, 11e **(Mishkin)**

Question 1: Give the suitable definitions of the following concepts:

1. They are markets in which funds are transferred from people and Firms who have an excess of available funds to people and Firms who have a need of funds (shortage).
2. It is a financial instrument that is considered as a claim on the issuer's (borrower) future income or assets.
3. It is a debt security that promises to make payments regularly for a specified (usually long) period.
4. It is a debt security that promises to make payments regularly for a specified short period of time
5. It represents a share of ownership in a corporation. It is a security that is a claim on the earnings and assets of the corporation.
6. They are institutions that borrow funds from people who have saved and make loans to other people or corporations.
7. It is the development of new financial products and services (e.g., holding debit cards instead of cash.
8. They are major disturbances in financial markets that are characterized by sharp declines in asset prices and failures of many financial and nonfinancial firms.
9. It is characterised by the upward and downward movement of aggregate output produced in the economy. the upward and downward movement of aggregate output produced in the economy

Question 2: Choose the correct answer:

1. Financial markets promote economic efficiency by
   A) channelling funds from investors to savers. B) creating inflation.
   C) channelling funds from savers to investors. D) reducing investment.

2. A key factor in producing high economic growth is
   A) eliminating foreign trade. B) well-functioning financial markets.
   C) high interest rates. D) stock market volatility.

3. Markets in which funds are transferred from those who have excess funds available to those who have a shortage of available funds are called
   A) commodity markets. B) fund-available markets.
   C) derivative exchange markets. D) financial markets.

4. Poorly performing financial markets can be the cause of
   A) wealth. B) poverty. C) financial stability. D) financial expansion.

5. The bond markets are important because they are
   A) easily the most widely followed financial markets in the United States.
   B) the markets where foreign exchange rates are determined.
   C) the markets where interest rates are determined.
   D) the markets where all borrowers get their funds.

6. The price paid for the rental of borrowed funds (usually expressed as a percentage of the rental of $100 per year) is commonly referred to as the
   A) inflation rate. B) exchange rate.
   C) interest rate. D) aggregate price level.

7. Everything else held constant, a decline in interest rates will cause spending on housing to
   A) fall. B) remain unchanged.
   C) either rise, fall, or remain the same. D) rise.

8. High interest rates might ________ purchasing a house or car but at the same time high interest rates might ________ saving.
   A) discourage; encourage B) discourage; discourage
   C) encourage; encourage D) encourage; discourage

9. High interest rates might cause a corporation to ________ building a new plant that would provide more jobs.
   A) complete B) consider C) postpone D) contemplate

10. Stock prices are
   A) relatively stable trending upward at a steady pace.
   B) relatively stable trending downward at a moderate rate.
   C) extremely volatile.
   D) unstable trending downward at a moderate rate.

11. Low stock market prices might ________ consumers willingness to spend and might ________ businesses willingness to undertake investment projects.
   A) increase; increase B) increase; decrease
   C) decrease; decrease D) decrease; increase

12. A share of common stock is a claim on a corporation's
   A) debt. B) liabilities. C) expenses. D) earnings and assets.

13. When I purchase a corporate ________, I am lending the corporation funds for a specific time. When I purchase a corporation's ________, I become an owner in the corporation.
   A) bond; stock B) stock; bond C) stock; debt security D) bond; debt security

14. Channelling funds from individuals with surplus funds to those desiring funds when the saver does not purchase the borrower's security is known as
   A) barter. B) redistribution. C) financial intermediation. D) taxation.

15. A financial crisis is

A) not possible in the modern financial environment.
B) a major disruption in the financial markets.
C) a feature of developing economies only.
D) typically followed by an economic boom.

16. Banks and other financial institutions engage in financial intermediation, which
A) can hurt the performance of the economy.
B) can benefit economic performance.
C) has no effect on economic performance.
D) involves borrowing from investors and lending to savers.

17. Which of the following is not a financial institution?
A) a life insurance company B) a pension fund
C) a credit union D) a business college

18. The delivery of financial services electronically is called
A) e-business. B) e-commerce. C) e-finance. D) e-possible.

19. Money is defined as
A) bills of exchange.
B) anything that is generally accepted in payment for goods and services or in the repayment of debt.
C) a risk-free repository of spending power.
D) the unrecognized liability of governments.

20. Sustained downward movements in the business cycle are referred to as
A) inflation. B) recessions. C) economic recoveries. D) expansions.

21. During a recession, output declines resulting in
A) lower unemployment in the economy.
B) higher unemployment in the economy.
C) no impact on the unemployment in the economy.
D) higher wages for the workers.

22. Evidence from business cycle fluctuations in the United States indicates that
A) a negative relationship between money growth and general economic activity exists.
B) recessions are usually preceded by declines in bond prices.
C) recessions are usually preceded by dollar depreciation.
D) recessions are usually preceded by a decline in the growth rate of money.

23. A sharp increase in the growth of the money supply is likely followed by
A) a recession.
B) a depression.
C) an increase in the inflation rate.
D) no change in the economy.

24. There is a ________ association between inflation and the growth rate of money ________.
A) positive; demand B) positive; supply C) negative; demand D) negative; supply

25. The management of money and interest rates is called ________ policy and is conducted by a nation's ________ bank.
A) monetary; superior B) fiscal; superior C) fiscal; central D) monetary; central

26. The price of one country's currency in terms of another country's currency is called the

A) exchange rate. B) interest rate.
C) Dow Jones industrial average. D) prime rate

27. When tax revenues are greater than government expenditures, the government has a budget
A) crisis. B) deficit. C) surplus. D) revision

28. ________ policy involves decisions about government spending and taxation.
A) Monetary B) Fiscal C) Financial D) Systemic

Question 3: Answer the following short essay questions

1. What is a stock? How do stocks affect the economy?
2. Why is it important to understand the bond market?
3. What crucial role do financial intermediaries perform in an economy?
4. What happens to economic growth and unemployment during a business cycle recession? What is the relationship between the money growth rate and a business cycle recession?