E216: Money and Banking

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Tutorial on Chapter 2: ***An Overview of the financial system***
Economics of Money, Banking, and Fin. Markets, 11e (Mishkin)

Choose the correct answer:

1. Financial markets have the basic function of
   A) getting people with funds to lend together with people who want to borrow funds.
   B) assuring that the swings in the business cycle are less pronounced.
   C) assuring that governments need never resort to printing money.
   D) providing a risk-free repository of spending power.

2. Financial markets improve economic welfare because
   A) they channel funds from investors to savers.
   B) they allow consumers to time their purchase better.
   C) they weed out inefficient firms.
   D) eliminate the need for indirect finance.

3. Which of the following can be described as direct finance?
   A) You take out a mortgage from your local bank.
   B) You borrow $2500 from a friend.
   C) You buy shares of common stock in the secondary market.
   D) You buy shares in a mutual fund.

4. Which of the following can be described as involving direct finance?
   A) A corporation takes out loans from a bank.
   B) People buy shares in a mutual fund.
   C) A corporation buys a short-term corporate security in a secondary market.
   D) People buy shares of common stock.

5. Which of the following can be described as involving indirect finance?
   A) You make a loan to your neighbor.
   B) A corporation buys a share of common stock issued by another corporation in the primary market.
   C) You buy a U.S. Treasury bill from the U.S. Treasury.
   D) You make a deposit at a bank.

6. With direct finance, funds are channeled through the financial market from the ________ directly to the ________.
   A) savers, spenders

B) spenders, investors
C) borrowers, savers
D) investors, savers

7. If the maturity of a debt instrument is less than one year, the debt is called
A) short-term.
B) intermediate-term.
C) long-term.
D) prima-term.

8. Long-term debt has a maturity that is
A) between one and ten years.
B) less than a year.
C) between five and ten years.
D) ten years or longer.

9. A financial market in which previously issued securities can be resold is called a _________ market.
A) primary
B) secondary
C) tertiary
D) used securities

10. When an investment bank _________ securities, it guarantees a price for a corporation's securities and then sells them to the public.
A) underwrites
B) undertakes
C) overwrites
D) overtakes

11. _________ work in the secondary markets matching buyers with sellers of securities.
A) Dealers
B) Underwriters
C) Brokers
D) Claimants

12. A corporation acquires new funds only when its securities are sold in the
A) primary market by an investment bank.
B) primary market by a stock exchange broker.
C) secondary market by a securities dealer.
D) secondary market by a commercial bank.

13. A corporation acquires new funds only when its securities are sold in the
    A) secondary market by an investment bank.
    B) primary market by an investment bank.
    C) secondary market by a stock exchange broker.
    D) secondary market by a commercial bank.
14. A financial market in which only short-term debt instruments are traded is called the ________ market.
    A) bond
    B) money
    C) capital
    D) stock
15. Equity instruments are traded in the ________ market.
    A) money
    B) bond
    C) capital
    D) commodities
16. A debt instrument sold by a bank to its depositors that pays annual interest of a given amount and at maturity pays back the original purchase price is called
    A) commercial paper.
    B) a certificate of deposit.
    C) a municipal bond.
    D) federal funds.
17. A short-term debt instrument issued by well-known corporations is called
    A) commercial paper.
    B) corporate bonds.
    C) municipal bonds.
    D) commercial mortgages.
18. ________ are short-term loans in which Treasury bills serve as collateral.
    A) Repurchase agreements
    B) Negotiable certificates of deposit
    C) Federal funds
    D) U.S. government agency securities

19. Which of the following instruments are traded in a money market?
    A) Bank commercial loans
    B) Commercial paper
    C) State and local government bonds

D) Residential mortgages

20. Financial institutions that accept deposits and make loans are called ________ institutions.
    A) investment
    B) contractual savings
    C) depository
    D) underwriting
21. Which of the following financial intermediaries is not a depository institution?
    A) A savings and loan association
    B) A commercial bank
    C) A credit union
    D) A finance company
22. The primary liabilities of depository institutions are
    A) premiums from policies.
    B) shares.
    C) deposits.
    D) bonds.
23. Contractual savings institutions include
    A) mutual savings banks.
    B) money market mutual funds.
    C) commercial banks.
    D) life insurance companies.
24. The primary assets of a pension fund are
    A) money market instruments.
    B) corporate bonds and stock.
    C) consumer and business loans.
    D) mortgages.
25. ________ are financial intermediaries that acquire funds by selling shares to many individuals and using the proceeds to purchase diversified portfolios of stocks and bonds.
    A) Mutual funds
    B) Investment banks
    C) Finance companies
    D) Credit unions