University of Benha
Faculty of Commerce
English Section
Dept. of Economics

Economics of Money & Banking
Course Code:
Economics E216
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Tutorial 2

1. Of the four effects on interest rates from an increase in the money supply, the one that works in the opposite direction of the other three is the:

   A) liquidity effect.

   B) income effect.

   C) price level effect.

   D) expected inflation effect.

2. The narrow definition of money is based on
   A. Medium of payment function
   B. Cant' say
   C. Store of value function
   D. Transferability of money

3. One of the type of deposit accounts with the commercial banks is

   A. Share holding
   B. Savings account
   C. Gold
   D. Mutual fund

4. One drawback of barter exchange is
   A. Lack of trust
   B. Lack of goods
   C. Lack of double coincidence of wants
   D. Lack of coincidence of wants

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5. . If, while you are holding a coupon bond, the interest rates on other similar bonds fall, you know that
   A. the coupon payments on your bond will fall.
   B the market price of your bond will rise.
   C. the market price of your bond will fall.
   D. the par value of your bond will rise.

6. Assets with greater risk
   A. Usually go unsold relative to those with lower risk.
   B. are generally tax-free to compensate for the increased risk.
   C. Tend to have higher yields to compensate for the increased risk.
   D. Are avoided by rational people.

7. Assets with greater liquidity
   A. also have greater returns.
   B. are generally tax-free.
   C. help savers smooth spending over time.
   D. are avoided by rational people.

8. When households and businesses substitute Treasury bills, commercial paper, and repurchase agreements for short-term bank deposits in their portfolios, they are
   A. sacrificing liquidity for return.
   B. sacrificing return for liquidity.
   C. increasing both their liquidity and return.
   D. decreasing both their liquidity and return.

9. The nominal interest rate minus the expected rate of inflation
   A. defines the real interest rate.
   B. is a less accurate measure of the incentives to borrow and lend than is the nominal interest rate.
   C. is a less accurate indicator of the tightness of credit market conditions than is the nominal interest rate.
   D. defines the discount rate.

10. In which of the following situations would you prefer to be the lender?
    A. The interest rate is 9 percent and the expected inflation rate is 7 percent.
    B. The interest rate is 4 percent and the expected inflation rate is 1 percent.
    C. The interest rate is 13 percent and the expected inflation rate is 15 percent.
    D. The interest rate is 25 percent and the expected inflation rate is 50 percent.

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11. In which of the following situations would you prefer to be borrowing?
    A. The interest rate is 9 percent and the expected inflation rate is 7 percent.
    B. The interest rate is 4 percent and the expected inflation rate is 1 percent.
    C. The interest rate is 13 percent and the expected inflation rate is 15 percent.
    D. The interest rate is 25 percent and the expected inflation rate is 50 percent.

12. If you expect the inflation rate to be 12 percent next year and a one-year bond has a yield to maturity of 7 percent, then the real interest rate on this bond is
    A. 5 percent.
    B. −2 percent.
    C. 2 percent.
    D. 12 percent.

13. If the nominal rate of interest is 2 percent, and prices are expected to fall (negative inflation) by 10 percent, the real rate of interest is (
    A. 2 percent.
    B. 8 percent.
    C. 10 percent.
    D. 12 percent.
    E. −8 percent.

14. If the nominal rate of interest is 5 percent, and the expected rate of deflation (negative inflation) is 5 percent, the real rate of interest is
    A. 0 percent.
    B. −5 percent.
    C. −10 percent.
    D. 5 percent.
    E. 10 percent.

15. Comparing a discount bond and a coupon bond with the same maturity,
    A. the coupon bond has the greater effective maturity.
    B. the discount bond has the greater effective maturity.
    C. both bonds have the same effective maturity.
    D. effective maturity cannot be calculated for a discount bond. (
    E. effective maturity cannot be calculated for a coupon bond.

16. An asset's interest rate risk _______ as the duration of the asset _____.
    A. increases; decreases
    B. decreases; decreases
    C. decreases; increases

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D. remains constant; increases
E. remains constant; decreases

17. As the price of a bond ________ and the expected return ________, bonds become more attractive to investors and the quantity demanded rises.
A. falls; rises
B. falls; falls
C. rises; rises
D. rises; falls

18. The supply curve for bonds has the usual upward slope, indicating that as the price ________, ceteris paribus, the ________ increases.
A) falls; supply
B) falls; quantity supplied
C) rises; supply
D) rises; quantity supplied

19. When the price of a bond is above the equilibrium price, there is excess ________ in the bond market and the price will ________.
A) demand; rise
B) demand; fall
C) supply; fall
D) supply; rise

20. 4) When the price of a bond is below the equilibrium price, there is excess ________ in the bond market and the price will ________.
A) demand; rise
B) demand; fall
C) supply; fall
D) supply; rise

21. When the interest rate on a bond is ________ the equilibrium interest rate, there is excess ________ in the bond market and the interest rate will ________.
A) below; demand; rise
B) below; demand; fall
C) below; supply; rise
D) above; supply; fall

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22. Factors that determine the demand for an asset include changes in the
    A) wealth of investors.
    B) liquidity of bonds relative to alternative assets.
    C) expected returns on bonds relative to alternative assets.
    D) risk of bonds relative to alternative assets.
    E) all of the above.

23. The demand for an asset rises if ________ falls.
    A) risk relative to other assets
    B) expected return relative to other assets
    C) liquidity relative to other assets
    D) wealth

24. Diversification benefits an investor by
    A) increasing wealth.
    B) increasing expected return.
    C) reducing risk.
    D) increasing liquidity.