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

Economics of Money & Banking
Course Code:
Economics E216
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Tutorial 5

1. Which of the following is the primary source of external funds used by American businesses to finance their activities?
    A. Stock
    B. Bonds and commercial paper
    C. Bank loans
    D. Other loans
2. Of the following sources of external finance for American nonfinancial businesses, the least important is
    A. Loans from banks.
    B. stocks.
    C. bonds and commercial paper.
    D. Loans from other financial intermediaries.

3. Which of the following are true statements concerning financial structure in the United States?
    A. Issuing marketable securities is the primary way businesses finance their operations.
    B. Stocks are a far more important source of finance than are bonds in the United States.
    C. Together, bonds and stocks supply less than one-half of the external funds that corporations use to finance their activities.
    D. All of the above are true statements.

4. The purpose of regulation of financial markets is to
    A. limit the profits of financial institutions.
    B. increase competition among financial institutions.
    C. promote the provision of information to shareholders, depositors and the public.
    D. guarantee that the maximum rates of interest are paid on deposits. (e) do all of the above.

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5. Collateral is
   A. a prevalent feature of debt contracts for households.
   B. a prevalent feature of debt contracts for business.
   C. is property that is pledged to the lender if a borrower cannot make his or her debt payments.
   D. (d) all of the above.

6. Collateralized debt is also know as
   A. unsecured debt.
   B. secured debt.
   C. unrestricted debt.
   D. restricted debt.
   E. promissory debt.

7. Credit card debt is
   A. secured debt.
   B. unsecured debt.
   C. restricted debt.
   D. (e) both (b)

8. Which of the following is not one of the eight basic puzzles about financial structure?
   A. The financial system is among the most heavily regulated sectors of the economy.
   B. Issuing marketable securities is the primary way businesses finance their operations.
   C. Indirect finance, which involves the activities of financial intermediaries, is many times more important than direct finance, in which businesses raise funds directly from lenders in financial markets.
   D. Banks are the most important source of external funds to finance businesses.

9. Financial intermediaries provide their customers with
   A. reduced transactions costs.
   B. increased diversification and reduced risk.
   C. greater liquidity.
   D. all of the above.

10. Mutual funds lower transactions costs and provide individual investors the benefit of

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A. reduced risk.
B. diversification.
C. economies of scale.
D. all of the above.

11. The reduction in transactions costs per dollar of investment as the size of transactions increases is
    A. diversification.
    B. economies of scale.
    C. economies of trade.
    D. both (a) and (b) of the above.

12. A borrower who takes out a loan usually has better information about the potential returns and risk of the investment projects he plans to undertake than does the lender. This inequality of information is called
    A. moral hazard.
    B. asymmetric information.
    C. noncollateralized risk.
    D. adverse selection.

13. If bad credit risks are the ones who most actively seek loans and, therefore, receive them from financial intermediaries, then financial intermediaries face the problem of
    A. moral hazard.
    B. adverse selection.
    C. free-riding.
    D. costly state verification.

14. The problem created by asymmetric information before the transaction occurs is called _____, while the problem created after the transaction occurs is called _____.
    A. adverse selection; moral hazard
    B. moral hazard; adverse selection
    C. costly state verification; free-riding
    D. free-riding; costly state verification

15. The _____ problem helps to explain why the private production and sale of information cannot eliminate _____.
    A. free-rider; adverse selection
    B. free-rider; moral hazard
    C. principal-agent; adverse selection

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D. principal-agent; moral hazard

16. Because of the moral hazard problem,
    A. lenders may demand positions on the board of directors of the firms that they provide with financing.
    B. lenders will choose to write complicated contracts, prohibiting the borrowers from using the loan proceeds for unauthorized purposes.
    C. lenders will more readily lend to borrowers with high net worth.
    D. all of the above.

17. The concept of adverse selection helps to explain
    A. why collateral is not a common feature of many debt contracts.
    B. why large, well-established corporations find it so difficult to borrow funds in securities markets.
    C. why financial markets are among the most heavily regulated sectors of the economy.
    D. all of the above.

18. The principal-agent problem
    A. occurs when managers have more incentive to maximize profits than the stockholders-owners do.
    B. would not arise if the owners of the firm had complete information about the activities of the managers.
    C. in financial markets helps to explain why equity is a relatively important source of finance for American business.
    D. all of the above.

19. Some of the problems that cause financial repression in developing and transition economies include
    A. poor legal systems.
    B. strong accounting standards.
    C. private ownership of banks.
    D. excessive government regulation

20. Most financial crises in the United States have begun with
    A. a steep stock market decline.
    B. an increase in uncertainty resulting from the failure of a major firm.
    C. a steep decline in interest rates.
    D. only (a) and (b) of the above.