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

Economics of Money & Banking
Course Code:
Economics E216

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Tutorial 6

1. The most important source of the changes in supply conditions that stimulate financial innovation has been the
   A. aging of the baby-boomer generation.
   B. dramatic increase in the volatility of interest rates.
   C. improvement in computer and telecommunications technology.
   D. dramatic increase in competition from foreign banks. (

2. Depositors lack of information about the quality of bank assets can lead to ________
   A. bank panics
   B. bank booms
   C. Sequencing
   D. asset transformation

3. Since depositors, like any lender, only receive fixed payments while the bank keeps any surplus profits, they face the ________ problem that banks may take on too ________ risk.
   A. adverse selection; little
   B. adverse selection; much
   C. moral hazard; little
   D. moral hazard; much

4. Acquiring information on a bank's activities in order to determine a bank's risk is difficult fordepositors and is another argument for government ________.
   A. Regulation
   B. Ownership
   C. Recall
   D. Forbearance

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5. The subprime financial crisis caused a recession because of the ________ in adverse selection and moral hazard problems and the ________ in housing prices.
   A. increase; increase
   B. increase; decrease
   C. decrease; increase
   D. Decrease; decrease

6. Serious consequence of a financial crisis is
   A. A contraction in economic activity.
   B. An increase in asset prices.
   C. Financial engineering.
   D. Financial lobalization

7. Abank panic can lead to a sever contraction in economic activity due to
   A. A decline in international trade.
   B. The losses of bank shareholders.
   C. The losses of bank depositors.
   D. A decline in ending for productive investment.

8. The risk structure of interest rates is
   A. the structure of how interest rates move over time.
   B. the relationship among interest rates of different bonds with the same maturity.
   C. the relationship among the term to maturity of different bonds.
   D. the relationship among interest rates on bonds with different maturities.

9. The risk that interest payments will not be made, or that the face value of a bond is not repaid when a bond matures is
   A. interest rate risk.
   B. inflation risk.
   C. moral hazard.
   D. default risk.

10. Bonds with no default risk are called
    A. flower bonds.
    B. no-risk bonds.
    C. default-free bonds.
    D. zero-risk bonds.

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11. The spread between the interest rates on bonds with default risk and default-free bonds is called the
    A. risk premium.
    B. junk margin.
    C. bond margin.
    D. default premium.

12. The term structure of interest rates is
    A. the relationship among interest rates of different bonds with the same maturity.
    B. the structure of how interest rates move over time.
    C. the relationship among the term to maturity of different bonds.
    D. the relationship among interest rates on bonds with different maturities.

13. A plot of the interest rates on default-free government bonds with different terms to maturity is called
    A. a risk-structure curve.
    B. a default-free curve.
    C. a yield curve.
    D. an interest-rate curve.

14. Typically, yield curves are
    A) gently upward sloping.
    B) mound shaped.
    C) flat.
    D) gently downward sloping.