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

Economics of Money & Banking
Course Code:
Economics E216
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1) When the market's required rate of return for a particular bond is much less than its coupon rate, the bond is selling at:
   A. a premium.
   B. a discount.
   C. cannot be determined without more information.
   D. face value.

2) If an investor may have to sell a bond prior to maturity and interest rates have risen since the bond was purchased, the investor is exposed to
   A. the coupon effect.
   B. interest rate risk.
   C. a perpetuity.
   D. an indefinite maturity.

3) If a bond sells at a high premium, then which of the following relationships hold true? (P_0 represents the price of a bond and YTM is the bond's yield to maturity.)
   A. P_0 < par and YTM > the coupon rate.
   B. P_0 > par and YTM > the coupon rate.
   C. P_0 > par and YTM < the coupon rate.
   D. P_0 < par and YTM < the coupon rate.

4) Interest rates and bond prices
   A. move in the same direction.
   B. move in opposite directions.
   C. sometimes move in the same direction, sometimes in opposite directions.
   D. have no relationship with each other (i.e., they are independent).

5) The expected rate of return on a bond if bought at its current market price and held to maturity.
   A. yield to maturity

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B. current yield
C. coupon yield
D. capital gains yield

6) 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

7) 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

8) 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

9) 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

10) When the price of a bond is ________ the equilibrium price, there is an excess supply of bonds and the price will ________.

A) above; rise
B) above; fall

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C) below; fall
D) below; rise

11) When the price of a bond is ________ the equilibrium price, there is an excess demand for bonds and the price will ________.

A) above; rise
B) above; fall
C) below; fall
D) below; rise

12) When the interest rate on a bond is above the equilibrium interest rate, there is excess ________ in the bond market and the interest rate will ________.

A) demand; rise
B) demand; fall
C) supply; fall
D) supply; rise

13) When the interest rate on a bond is below the equilibrium interest rate, there is excess ________ in the bond market and the interest rate will ________.

A) demand; rise
B) demand; fall
C) supply; fall
D) supply; rise

14) 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) above; demand; fall
B) above; demand; rise
C) below; supply; fall
D) above; supply; rise

15) 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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16) When the demand for bonds ________ or the supply of bonds ________, interest rates rise.

A) increases; increases
B) increases; decreases
C) decreases; decreases
D) decreases; increases

17) When the demand for bonds ________ or the supply of bonds ________, interest rates fall.

A) increases; increases
B) increases; decreases
C) decreases; decreases
D) decreases; increases

18) When the demand for bonds ________ or the supply of bonds ________, bond prices rise.

A) increases; decreases
B) decreases; increases
C) decreases; decreases
D) increases; increases

19) When the demand for bonds ________ or the supply of bonds ________, bond prices fall.

A) increases; increases
B) increases; decreases
C) decreases; decreases
D) decreases; increases

20) 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.

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21) 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

22) The higher the standard deviation of returns on an asset, the ________ the asset's ________.

A) greater; risk
B) smaller; risk
C) greater; expected return
D) smaller; expected return

23) Diversification benefits an investor by

A) increasing wealth.
B) increasing expected return.
C) reducing risk.
D) increasing liquidity.

24) Higher expected interest rates in the future ________ the demand for long-term bonds and shift the demand curve to the ________.

A) increase; left
B) increase; right
C) decrease; left
D) decrease; right

25) Lower expected interest rates in the future ________ the demand for long-term bonds and shift the demand curve to the ________

A) increase; left.
B) increase; right.
C) decrease; left.
D) decrease; right.

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26) When people begin to expect a large stock market decline, the demand curve for bonds shifts to the ________ and the interest rate ________.

A) right; falls
B) right; rises
C) left; falls
D) left; rises

27) An increase in the expected rate of inflation will ________ the expected return on bonds relative to that on ________ assets, and shift the ________ curve to the left.

A) reduce; financial; demand
B) reduce; real; demand
C) raise; financial; supply
D) raise; real; supply

28) A decrease in the expected rate of inflation will ________ the expected return on bonds relative to that on ________ assets.

A) reduce; financial
B) reduce; real
C) raise; financial
D) raise; real

29) When the expected inflation rate increases, the demand for bonds ________, the supply of bonds ________, and the interest rate ________.

A) increases; increases; rises
B) decreases; decreases; falls
C) increases; decreases; falls
D) decreases; increases; rises

30) When the expected inflation rate decreases, the demand for bonds ________, the supply of bonds ________, and the interest rate ________.

A) increases; increases; rises
B) decreases; decreases; falls
C) increases; decreases; falls
D) decreases; increases; rises

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31) Factors that cause the demand curve for bonds to shift to the left include

A) an increase in the inflation rate.
B) an increase in the liquidity of stocks.
C) a decrease in the volatility of stock prices.
D) all of the above.
E) none of the above.

32) Factors that cause the demand curve for bonds to shift to the left include

A) a decrease in the inflation rate.
B) an increase in the volatility of stock prices.
C) an increase in the liquidity of stocks.
D) all of the above.
E) only A and B of the above.

33) An increase in expected inflation causes the supply of bonds to ________ and the supply curve to shift to the ________.

A) increase; left
B) increase; right
C) decrease; left
D) decrease; right

34) When the federal governments budget deficit increases, the ________ curve for bonds shifts to the ________.

A) demand; right
B) demand; left
C) supply; left
D) supply; right

35) When the inflation rate is expected to increase, the expected return on bonds relative to real assets falls for any given interest rate; as a result, the ________ bonds falls and the ________ curve shifts to the left.

A) demand for; demand
B) demand for; supply
C) supply of; demand
D) supply of; supply

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36) When the inflation rate is expected to increase, the real cost of borrowing declines at any given interest rate; as a result, the ________ bonds increases and the ________ curve shifts to the right.

A) demand for; demand
B) demand for; suppl
C) supply of; demand
D) supply of; supply

37) Factors that can cause the supply curve for bonds to shift to the right include

A) an expansion in overall economic activity.

B) a decrease in expected inflation.
C) a decrease in government deficits.
D) all of the above.
E) only A and B of the above.

38) Factors that can cause the supply curve for bonds to shift to the left include

A) an expansion in overall economic activity.
B) a decrease in expected inflation.
C) an increase in government deficits.
D) only A and C of the above.

39) The more liquid an asset is relative to alternative assets, holding everything else unchanged, the more desirable it is, and the greater the quantity demanded.

A) True B) False