Faculty of Commerce, Benha University

Economics of Money & Banking

Course Code:

Economics E216

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Tutorial 2

1. Which one is included in the primary function of money?
   (a) Medium of Exchange
   (b) Measure of Value
   (c) Both (a) and (b)
   (d) Store of Value

2. In order to encourage investment in the economy, the Central Bank may ________
   (A) Reduce Cash Reserve Ratio
   (B) Increase Cash Reserve Ratio
   (C) Sell Government securities in the open market
   (D) Increase Bank Rate

3. Institution that accepts deposits for lending purpose is known as __________
   (A) Commercial Bank
   (B) Central Bank
   (C) Government
   (D) Public

4. The full form of ATM is:
   (a) Any Time Money
   (b) All Time Money
   (c) Automated Teller Machine
   (d) Both (a) and (b)

5. Which is the Agency Function of Commercial Banks?
   (a) Advancing Loans
   (b) Accepting Deposits
   (c) Act as Trustee
   (d) Locker Facility

6. Which of the following is the narrow measure of the money supply?
   (A) M2
   (B) M3
   (C) M1
   (D) M4

7. Which is the correct order of money evolution?
   (a) Commodity Money, Paper Money, Metal Money
   (b) Commodity Money, Metal Money, Paper Money, Credit Money
   (c) Credit Money, Metal Money, Paper Money
   (d) None of the above

8. Demand deposits include
   (A) Saving account deposits and fixed deposits
   (B) Saving account deposits and current account deposits
   (C) Current account deposits and fixed deposits
   (D) All type of deposits

9. Giving permission to withdraw money by an amount more than deposited to is known as __________
   (A) Advance
   (B) Overdraft
   (C) Loan
   (D) None of these

10. 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

11. 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

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

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

13. . 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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.

19. 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.

20. 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.

21. 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.

22. An asset's interest rate risk _______ as the duration of the asset _____.
A. increases; decreases
B. decreases; decreases
C. decreases; increases
D. remains constant; increases
E. remains constant; decreases

23. 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

24. 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

25. 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

26. 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

27. 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

28. 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.

29. 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

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

31. 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.

32. 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.

33. 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.