Money and Banking - Quiz 1

Name:_______________________ Student ID #__________________________

Part I Multiple Choices: (only one of the four options is correct)

1) Everything else held constant, an increase in expected inflation, lowers the expected return on ________ compared to ________ assets.

A) bonds; financial B) bonds; real

C) physical; financial D) physical; real

2) Which of the following is **not** a form of e-money?

A) a debit card B) a credit card

C) a stored-value card D) a smart card

3) Which of the following can be described as involving direct finance?

A) A corporation takes out loans from a bank.

B) People buy shares in a mutual fund.

C) A corporation buys a short-term corporate security in a secondary market.

D) People buy shares of common stock in the primary markets.

4) A financial market in which previously issued securities can be resold is called a ________ market.

A) primary B) secondary

C) tertiary D) used securities

5) In the 1990s Japan had the lowest interest rates in the world due to a combination of

A) inflation and recession. B) deflation and expansion.

C) inflation and expansion. D) deflation and recession.

6) Bonds that are sold in a foreign country and are denominated in the country's currency in which they are sold are known as

A) foreign bonds. B) Eurobonds.

C) equity bonds. D) country bonds.

7) Economies of scale enable financial institutions to

A) reduce transactions costs.

B) avoid the asymmetric information problem.

C) avoid adverse selection problems.

D) reduce moral hazard.

8) Because these securities are more liquid and generally have smaller price fluctuations, corporations and banks use the ________ securities to earn interest on temporary surplus funds.

A) money market B) capital market

C) bond market D) stock market

9) When secondary market buyers and sellers of securities meet in one central location to conduct trades the market is called a(n)

A) exchange. B) over-the-counter market.

C) common market. D) barter market.

10) The Dow reached a peak of over 11,000 before the collapse of the ________ bubble in 2000.

A) housing B) manufacturing

C) high-tech D) banking

Part II Analytical Exercises

1. Use the data provided in the following table to calculate the growth rates of M1 and M2 in 2010. (10')

	2009	**2010**
Currency	900	920
Money Market Mutual Fund shares	680	681
Saving account deposit	5,500	5,780
Money market deposit accounts	1,214	1,245
Demand and checkable deposits	1,000	972
Small denomination time deposits	830	861
Traveler's check	4	4
3-month treasury bill	1,986	2,374

Answer:

First note that 3-month treasury bills are **NOT** considered in M1 or in M2 although shares in money market mutual funds (with 3-month treasury bills as one of their primary investment tools). As M1 includes currency, traveler's checks, demand and checkable deposits, and M2 includes M1 plus small denomination time deposits, money market deposit accounts and money market mutual fund shares, the M1 and M2 for 2009 and 2010 are respectively:

M1 of 2009 = 900 + 1,000 + 4 = 1,904

M2 of 2010 = M1 + 680 + 5,500+1,214+830=10,128

M1 of 2010=920+972+4=1896

M2 of 2010=M2 + 681 + 5,780 + 1,245 + 861=10,463

Growth rate of M1 = (1896/1904-1)*100% = 0.42%

Growth rate of M2=(10,463/10,128-1)*100%=3.3%