1.1 Why Study Financial Markets?

1) Financial markets promote economic efficiency by
   A) channeling funds from investors to savers.
   B) creating inflation.
   C) channeling funds from savers to investors.
   D) reducing investment.

2) Financial markets promote greater economic efficiency by channeling funds from _______ to _______.
   A) investors; savers
   B) borrowers; savers
   C) savers; borrowers
   D) savers; lenders

3) Well-functioning financial markets promote
   A) inflation.
   B) deflation.
   C) unemployment.
   D) growth.

4) Markets in which funds are transferred from those who have excess funds available to those who have a shortage of available funds are called
   A) commodity markets.
   B) fund-available markets.
   C) derivative exchange markets.
   D) financial markets.

5) _______ markets transfer funds from people who have an excess of available funds to people who have a shortage.
   A) Commodity
   B) Fund-available
   C) Financial
   D) Derivative exchange

6) Poorly performing financial markets can be the cause of
   A) wealth.
   B) poverty.
   C) financial stability.
   D) financial expansion.

7) The bond markets are important because they are
   A) easily the most widely followed financial markets in the United States.
   B) the markets where foreign exchange rates are determined.
   C) the markets where interest rates are determined.
   D) the markets where all borrowers get their funds.

8) The price paid for the rental of borrowed funds (usually expressed as a percentage of the rental of $100 per year) is commonly referred to as the
   A) inflation rate.
B) exchange rate.
C) interest rate.
D) aggregate price level.

9) Compared to interest rates on long-term U.S. government bonds, interest rates on three-month Treasury bills fluctuate ________ and are ________ on average.
   A) more; lower
   B) less; lower
   C) more; higher
   D) less; higher

10) An increase in interest rates might ________ saving because more can be earned in interest income.
    A) encourage
    B) discourage
    C) disallow
    D) invalidate

11) The stock market is important because it is
    A) where interest rates are determined.
    B) the most widely followed financial market in the United States.
    C) where foreign exchange rates are determined.
    D) the market where most borrowers get their funds.

12) When stock prices fall
    A) an individual’s wealth is not affected nor is their willingness to spend.
    B) a business firm will be more likely to sell stock to finance investment spending.
    C) an individual’s wealth may decrease but their willingness to spend is not affected.
    D) an individual’s wealth may decrease and their willingness to spend may decrease.

13) Changes in stock prices
    A) do not affect people's wealth and their willingness to spend
    B) affect firms’ decisions to sell stock to finance investment spending.
    C) occur in regular patterns.
    D) are unimportant to decision makers.

14) An increase in stock prices ________ the size of people's wealth and may ________ their willingness to spend, everything else held constant.
    A) increases; increase
    B) increases; decrease
    C) decreases; increase
    D) decreases; decrease

15) A common stock is a claim on a corporation’s
    A) debt.
    B) liabilities.
    C) expenses.
    D) earnings and assets.

16) The price of one country’s currency in terms of another country’s currency is called the
A) exchange rate.
B) interest rate.
C) Dow Jones industrial average.
D) prime rate.

17) The market where one currency is converted into another currency is called the ________ market.
A) stock
B) bond
C) derivatives
D) foreign exchange

18) Which of the following is most likely to result from a stronger dollar?
   A) U.S. goods exported abroad will cost less in foreign countries, and so foreigners will buy more of them.
   B) U.S. goods exported abroad will cost more in foreign countries and so foreigners will buy more of them.
   C) U.S. goods exported abroad will cost more in foreign countries, and so foreigners will buy fewer of them.
   D) Americans will purchase fewer foreign goods.

19) What is a stock? How do stocks affect the economy?
1.2 Why Study Banking and Financial Institutions?

1) Channeling funds from individuals with surplus funds to those desiring funds when the saver does not purchase the borrower's security is known as
   A) barter.
   B) redistribution.
   C) financial intermediation.
   D) taxation.

2) Banks are important to the study of money and the economy because they
   A) channel funds from investors to savers.
   B) have been a source of rapid financial innovation.
   C) are the only important financial institution in the U.S. economy.
   D) create inflation.

3) Economists group commercial banks, savings and loan associations, credit unions, mutual funds, mutual savings banks, insurance companies, pension funds, and finance companies together under the heading financial intermediaries.
   Financial intermediaries
   A) provide a channel for linking those who want to save with those who want to invest.
   B) produce nothing of value and are therefore a drain on society's resources.
   C) can hurt the performance of the economy.
   D) hold very little of the average American's wealth.

4) Banks, savings and loan associations, mutual savings banks, and credit unions
   A) are no longer important players in financial intermediation.
   B) since deregulation now provide services only to small depositors.
   C) have been adept at innovating in response to changes in the regulatory environment.
   D) produce nothing of value and are therefore a drain on society's resources.

5) Banks and other financial institutions engage in financial intermediation, which
   A) can hurt the performance of the economy.
   B) can benefit economic performance.
   C) has no effect on economic performance.
   D) involves borrowing from investors and lending to savers.

6) Financial institutions that accept deposits and make loans are called ________.
   A) exchanges
   B) banks
   C) over-the-counter markets
   D) finance companies

7) The financial intermediaries that the average person interacts with most frequently are ________.
   A) exchanges
   B) over-the-counter markets
   C) finance companies
   D) banks

8) Which of the following is not a financial institution?
   A) a life insurance company
B) a pension fund
C) a credit union
D) a business college

9) The delivery of financial services electronically is called _______.
   A) e-business
   B) e-commerce
   C) e-finance
   D) e-possible
1.3 Why Study Money and Monetary Policy?

1) Money is defined as
   A) bills of exchange.
   B) anything that is generally accepted in payment for goods and services or in the repayment of debt.
   C) a risk-free repository of spending power.
   D) the unrecognized liability of governments.

2) The upward and downward movement of aggregate output produced in the economy is referred to as the __________.
   A) roller coaster
   B) see saw
   C) business cycle
   D) shock wave

3) Sustained downward movements in the business cycle are referred to as
   A) inflation.
   B) recessions.
   C) economic recoveries.
   D) expansions.

4) It is true that inflation is a
   A) continuous increase in the money supply.
   B) continuous fall in prices.
   C) decline in interest rates.
   D) continually rising price level.

5) ________ theory relates changes in the quantity of money to changes in aggregate economic activity and the price level.
   A) Monetary
   B) Fiscal
   C) Financial
   D) Systemic

6) The management of money and interest rates is called ________ policy and is conducted by a nation's ________ bank.
   A) monetary; superior
   B) fiscal; superior
   C) fiscal; central
   D) monetary; central

7) The organization responsible for the conduct of monetary policy in the United States is the
   A) Comptroller of the Currency.
   B) U.S. Treasury.
   C) Federal Reserve System.
   D) Bureau of Monetary Affairs.

8) ________ policy involves decisions about government spending and taxation.
   A) Monetary
9) When tax revenues are greater than government expenditures, the government has a budget _______.
   A) crisis
   B) deficit
   C) surplus
   D) revision

10) Budgets deficits can be a concern because they might
    A) ultimately lead to higher inflation.
    B) lead to lower interest rates.
    C) lead to a slower rate of money growth.
    D) lead to higher bond prices.

23) What happens to economic growth and unemployment during a business cycle recession? What is the relationship between the money growth rate and a business cycle recession?