Name: ______________________ Class: ______________ Date: __________

Chapter 02: THE ROLE OF FINANCIAL MARKETS AND FINANCIAL INTERMEDIARIES

1. The power to create money is given by the Constitution to the Federal Reserve.

a. True

b. False

ANSWER: False

2. Since M-2 excludes time deposits, M-2 is a less comprehensive measure of the money supply than M-1.

a. True

b. False

ANSWER: False

3. When individuals withdraw cash from checking accounts, the money supply is unaffected.

a. True

b. False

ANSWER: True

4. The yield curve relates risk and interest rates.

a. True

b. False

ANSWER: False

5. During most historical periods, the yield curve has been positively sloped.

a. True

b. False

ANSWER: True

6. What serves for money in France may not be money in another country.

a. True

b. False

ANSWER: True

7. The U.S. Treasury creates most of the nation's money supply.

a. True

b. False

ANSWER: False

8. When individuals deposit cash in a demand deposit, the money supply is reduced.

a. True

b. False

ANSWER: False

9. M-1 includes savings accounts in commercial banks.

a. True

b. False

ANSWER: False

10. A financial intermediary transfers funds from borrowers to lenders by creating claims on itself.

a. True
b. False

ANSWER: False

11. When cash is deposited in a checking account, the reserves of commercial banks are increased.

a. True
b. False

ANSWER: True

12. When funds are deposited in a savings account, the excess reserves of banks are unaffected.

a. True
b. False

ANSWER: False

13. Large certificates of deposit in units of $500,000 are insured by FDIC.

a. True
b. False

ANSWER: False

14. In general, banks prefer loans that stress liquidity and safety.

a. True
b. False

ANSWER: True

15. Insurance companies are a major source of loans to individuals.

a. True
b. False

ANSWER: False

16. Money market mutual funds invest in short-term securities like U.S. Treasury bills.

a. True
b. False

ANSWER: True

17. An increase in interest rates tends to reduce the earnings of money market mutual funds.

a. True
b. False

ANSWER: False

18. A pension plan that invests in the stock of IBM or Verizon does not perform the function of a financial intermediary.

a. True
b. False

ANSWER: True

19. Investments in money market mutual funds are insured up to $100,000 by the federal government.
    a. True
    b. False

ANSWER: False

20. A financial intermediary creates claims on itself, when it accepts depositors' funds.
    a. True
    b. False

ANSWER: True

21. M-1 includes coins, currency, and ______.
    a. demand deposits
    b. savings accounts
    c. certificates of deposit
    d. time deposits

ANSWER: a

22. The power to create money is given by the Constitution to
    a. state governments
    b. Congress
    c. the Federal Reserve
    d. commercial banks

ANSWER: b

23. The term structure of interest rates relates
    a. risk and yields
    b. yields and credit ratings
    c. term and yields
    d. stock and bond yields

ANSWER: c

24. The term structure of interest rates indicates the
    a. relationship between risk and yields
    b. relationship between the time and yields
    c. the difference between borrowing and lending
    d. the difference between the yield (interest rate) on government and corporate debt

ANSWER: b

25. Money serves as
    a. a substitute for equity
    b. a precaution against inflation

c. a medium of exchange
d. a risk-free liability

ANSWER: c

26. M-2 includes
1. demand deposits
2. savings accounts
3. small certificates of deposit

a. 1 and 2
b. 2 and 3
c. 1 and 3
d. all three

ANSWER: d

27. Which of the following is not a financial intermediary?

a. New York Stock Exchange
b. Washington Savings and Loan
c. First National City Bank
d. Merchants Savings Bank

ANSWER: a

28. The assets of a typical commercial bank include

a. commercial loans
b. demand deposits
c. common stock
d. equity

ANSWER: a

29. Federally insured investments include

a. savings accounts in national commercial banks
b. certificates of deposit in excess of $500,000
c. life insurance policies
d. commercial bank assets

ANSWER: a

30. The primary assets of life insurance companies include

a. life insurance
b. corporate securities
c. municipal securities
d. insurance policies

ANSWER: b

31. A pension plan that grants mortgage loans

a. is an example of a financial intermediary

b. cannot suffer losses
c. is called a savings and loan association
d. is not a financial intermediary

ANSWER: a

32. Money market mutual funds invest in
a. corporate bonds
b. corporate stock
c. federal government Treasury bills
d. federal government Treasury bonds

ANSWER: c

33. A financial intermediary transfers
a. savings to households
b. savings to borrowers
c. stocks to brokers
d. new stock issues to buyers

ANSWER: b

34. Treasury bills are
a. long-term securities issued by the federal government
b. short-term securities issued by the federal government
c. long-term securities issued by money market mutual funds
d. short-term securities issued by money market mutual funds

ANSWER: b