

Name _____ Class _____ Date _____
: _____ : _____ e: _____

CHAPTER 01—THE BUSINESS OF BANKING

1. A bank is a not-for-profit organization.

- a. True
- b. False

ANSWER: False

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.1 - LO: 1.1.1

2. All federally chartered banks must be corporations.

- a. True
- b. False

ANSWER: True

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.1 - LO: 1.1.1

3. Commercial banks offer their services only to businesses.

- a. True
- b. False

ANSWER: False

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.1 - LO: 1.1.1

4. Record keeping is an important part of securing your money in a bank.

- a. True
- b. False

ANSWER: True

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.2.1 - LO: 1.2.1

5. Issuing credit cards is a form of bank lending.

- a. True
- b. False

ANSWER: True

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.2.2 - LO: 1.2.2

6. It is illegal for banks to charge higher interest rates for loans than they pay depositors.

- a. True
- b. False

ANSWER: False

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

7. Generally speaking, banks offer customers fewer services today than they did 20 years ago.

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- a. True
- b. False

ANSWER: False

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.2 - LO: 1.1.2

8. Interest on home-equity loans often is tax-deductible for consumers.

- a. True
- b. False

ANSWER: True

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.2 - LO: 1.3.2

9. A credit union is a not-for-profit organization.

- a. True
- b. False

ANSWER: True

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.4.1 - LO: 1.4.1

10. A loan company is not a financial intermediary because it does not receive deposits.

- a. True
- b. False

ANSWER: False

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.4.2 - LO: 1.4.2

11. Return on equity is the ratio of net income to total assets.

- a. True
- b. False

ANSWER: False

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

12. Which of the following statements about banks is NOT true?

- a. Banks distribute the medium of exchange.
- b. All banks are organized as corporations.
- c. Banks may be chartered by either federal or state governments.
- d. Banks are essential to maintaining the economy.

ANSWER: b

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.1 - LO: 1.1.1

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13. Banks that manage, regulate, and protect both the money supply and other banks are

- a. retail banks.
- b. central banks.
- c. commercial banks.
- d. credit unions.

ANSWER: b

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.1 - LO: 1.1.1

14. One result of competition among banks is that

- a. more services are available to consumers.
- b. more banks exist now than a decade ago.
- c. the trend toward mergers in the banking industry has slowed.
- d. all of the above.

ANSWER: a

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.2 - LO: 1.1.2

15. Banks move money between

- a. other banks.
- b. banks and individual customers.
- c. governments.
- d. all of the above.

ANSWER: d

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.2.1 - LO: 1.2.1

16. In the United States, banks and _____ work together to form the banking system and to ensure the money supply is adequate, appropriate, and trustworthy.

- a. consumers
- b. industry
- c. savings and loans
- d. the government

ANSWER: d

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.2.2 - LO: 1.2.2

17. The difference between what a bank pays in interest and what it receives in interest is called

- a. profit.
- b. spread.
- c. gross interest income.
- d. loss.

ANSWER: b

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POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

18. Which of the following is NOT a source of income for a bank?

- a. the interest earned by depositors
- b. investments
- c. loan income
- d. fees for services

ANSWER: a

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

19. Which of the following is considered a liability for a bank?

- a. loans
- b. investments
- c. deposits
- d. none of the above; banks are prohibited by law from carrying liabilities

ANSWER: c

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

20. Which of the following is a nondepository intermediary?

- a. commercial bank
- b. insurance company
- c. savings and loan association
- d. credit union

ANSWER: b

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.4.2 - LO: 1.4.2

21. One big difference between a commercial bank and a mutual savings bank is that

- a. a commercial bank is a nondepository intermediary.
- b. a mutual savings bank is a not-for-profit organization.
- c. a commercial bank is owned by depositors, not stockholders.
- d. a mutual savings bank is owned by depositors, not stockholders.

ANSWER: d

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.4.1 - LO: 1.4.1

22. Total assets minus total liabilities equals

- a. return on equity.
- b. return on assets.

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- c. equity.
- d. loss.

ANSWER: c
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

23. A bank is a financial _____ for the safeguarding, transferring, exchanging, or lending of money.

ANSWER: intermediary
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.1 - LO: 1.1.1

24. A(n) _____ bank serves as the government's banker.

ANSWER: central
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.1 - LO: 1.1.1

25. A(n) _____ occurs when one or more banks join or acquire another bank or banks.

ANSWER: merger
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.2 - LO: 1.1.2

26. A bank evaluates the _____ of all customers who apply for loans.

ANSWER: creditworthiness
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.2.2 - LO: 1.2.2

27. People who put money into banks are called _____.

ANSWER: depositors
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

28. Revenue minus _____ equals profit.

ANSWER: cost
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

29. A(n) _____ asset is anything that can readily be exchanged.

ANSWER: liquid
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

30. A(n) _____ is a cash obligation.

ANSWER: liability
POINTS: 1

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LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

31. A(n) _____ intermediary is a financial institution that obtains funds from the public and uses them to finance its business.

ANSWER: depository

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.4.1 - LO: 1.4.1

32. A commercial bank that specializes only in business banking is sometimes called a(n) _____ bank.

ANSWER: wholesale

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.4.1 - LO: 1.4.1

33. Profit, or net _____, is what is left of revenue after expenses are deducted.

ANSWER: income

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

34. Last year, First National Bank of Springfield paid \$5.1 million in interest to depositors; it collected \$7.8 million in interest from loans. Calculate the spread.

ANSWER: \$2.7 million

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

35. This month costs for SafeCo Bank were \$750,000; the bank collected \$970,000 in revenue. Find the bank's profit for the month.

ANSWER: \$220,000

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

36. Last year, profits for Fidelity Bank totaled \$1.1 million; spread was \$5.6 million. Find the bank's costs for the year.

ANSWER: \$4.5 million

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

37. Regina's bank charges \$1 for each ATM transaction, 50 cents for each online bill payment, and a \$10 monthly maintenance fee for her checking account. Last month, Regina used an ATM five times and paid seven bills online. What did she incur in banking fees for the month?

ANSWER: \$18.50

POINTS: 1

LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

38. Assume that a bank receives a \$5,000 deposit from a customer and lends it to another customer to start a small business. The bank pays a straight 5% per year interest to the customer and charges 10% per year for the loan. Calculate the spread for one year.

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ANSWER: \$250
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

39. Assume that a bank receives a \$10,000 deposit from a customer and lends it to another customer to buy a used car. The bank pays a straight 6% per year interest to the customer. The spread for one year is \$300. What is the interest rate the bank is charging for the loan?

ANSWER: 9%
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

40. Goliath Bank has net income of \$20,000 and total equity of \$80,000. Find the return on equity.

ANSWER: 25%
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

41. What does the term *medium of exchange* mean?

ANSWER: A medium of exchange is an agreed-upon system for measuring the value of goods and services.
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.1 - LO: 1.1.1

42. Briefly explain why retail banks developed in the United States.

ANSWER: Retail banks developed to help people not served by commercial banks save money, acquire loans, and invest.
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.1.1 - LO: 1.1.1
ES:

43. What activities are involved in a bank's enforcement function?

ANSWER: Enforcement activities include physical security, tracking down fraud, making collections, and pursuing legal actions against those who inflict losses on the bank.
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.2.1 - LO: 1.2.1
CTIVES:

44. The ability to transfer sums of money between financial institutions safely and effectively depends on what two factors?

ANSWER: The ability to transfer sums of money between financial institutions safely and effectively depends on the stability of the institutions, the stability of the countries where the banks reside, and the security of the money supply itself.
POINTS: 1
LEARNING OBJECTIVES: BNKG.CFFT.3.LO: 1.2.2 - LO: 1.2.2
CTIVES:

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45. Why are bank deposits not considered a form of bank income?

ANSWER: Bank deposits are not considered a form of bank income because the money does not really belong to the bank.

POINTS: 1

LEARNING OBJECTIVE BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

ES:

46. What is a currency exchange?

ANSWER: A currency exchange is a private company that cashes checks, sells money orders, and performs other exchange services for a fee.

POINTS: 1

LEARNING OBJECT BNKG.CFFT.3.LO: 1.4.2 - LO: 1.4.2

IVES:

47. Describe the effects of mergers on the banking industry.

ANSWER: Mergers have increased the size and resource power of banks but have decreased the number of banks. Some consumers face higher fees and find less community involvement and lending in local areas, which disturbs people who like to feel that their money is staying close to home. This has created some business opportunities for small banks, however. In the last decade, small banks in the U.S. have doubled the amount loaned to businesses.

POINTS: 1

LEARNING OBJECT BNKG.CFFT.3.LO: 1.1.2 - LO: 1.1.2

CTIVES:

48. Explain how a bank's sound business practices safeguard depositors' money.

ANSWER: Bank employees who use good judgment and manage day-to-day bank operations effectively tend to make good decisions about when and to whom to extend credit and how to make sound financial decisions. Accuracy is also important—this ensures that depositors' money is being handled correctly. A bank that is reckless with its deposits stands to lose its customers money.

POINTS: 1

LEARNING OBJECT BNKG.CFFT.3.LO: 1.2.2 - LO: 1.2.2

CTIVES:

49. Are a bank's liabilities more liquid or less liquid than its assets? Explain.

ANSWER: A bank's liabilities are more liquid than its assets. The bank must give depositors their money (considered a liability to a bank) if they request it, so the bank must keep a good amount of cash on hand. The bank's assets (loans and investments) may be less liquid because they are tied up in longer-term loans, so the bank cannot access them as quickly.

POINTS: 1

LEARNING OBJECT BNKG.CFFT.3.LO: 1.3.1 - LO: 1.3.1

CTIVES:

50. What are three primary differences between a credit union and a commercial bank?

ANSWER: Credit unions are owned by depositors; commercial banks are owned by stockholders. Unlike a commercial bank, users of credit unions must be members of the credit union. Credit unions are not-for-profit organizations; commercial banks strive to make a profit.

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POINTS: 1

LEARNING OBJECTIVES: 1.4.2 - LO: 1.4.2

CTIVES: