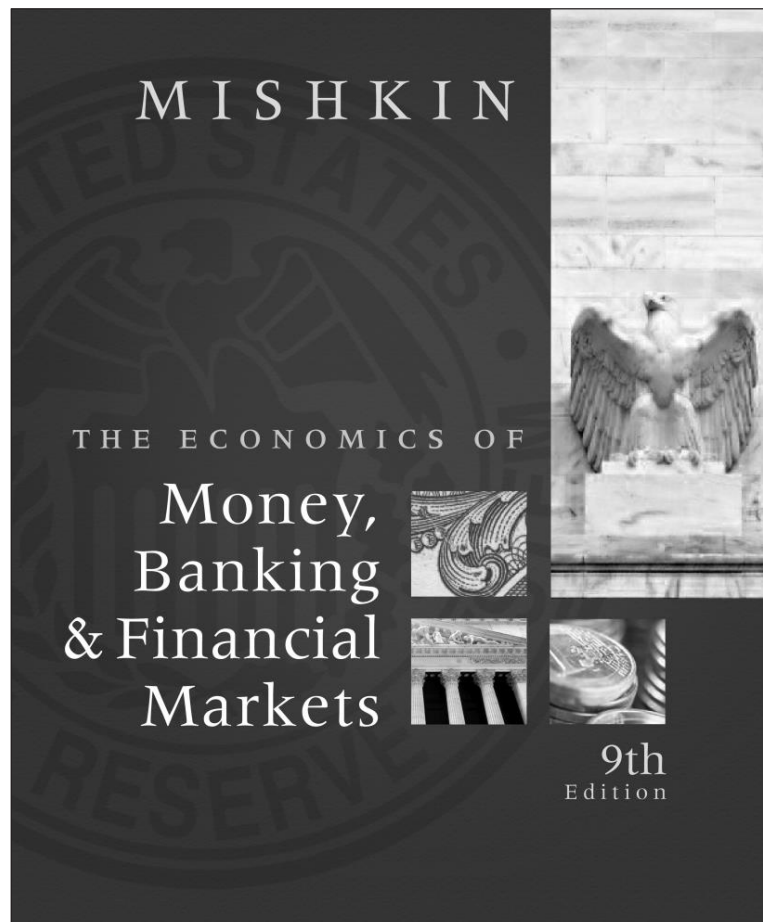


Test Bank

to accompany



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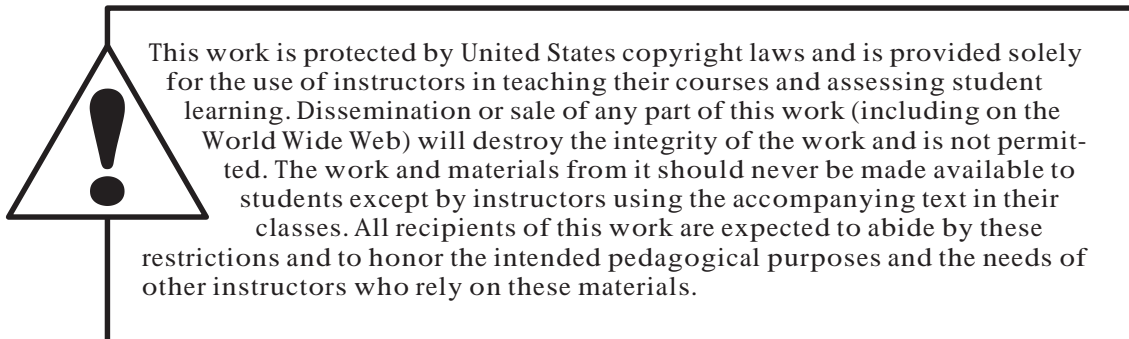
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TEST BANK

The Economics of Money, Banking, & Financial Markets

Frederic S. Mishkin

9th Edition

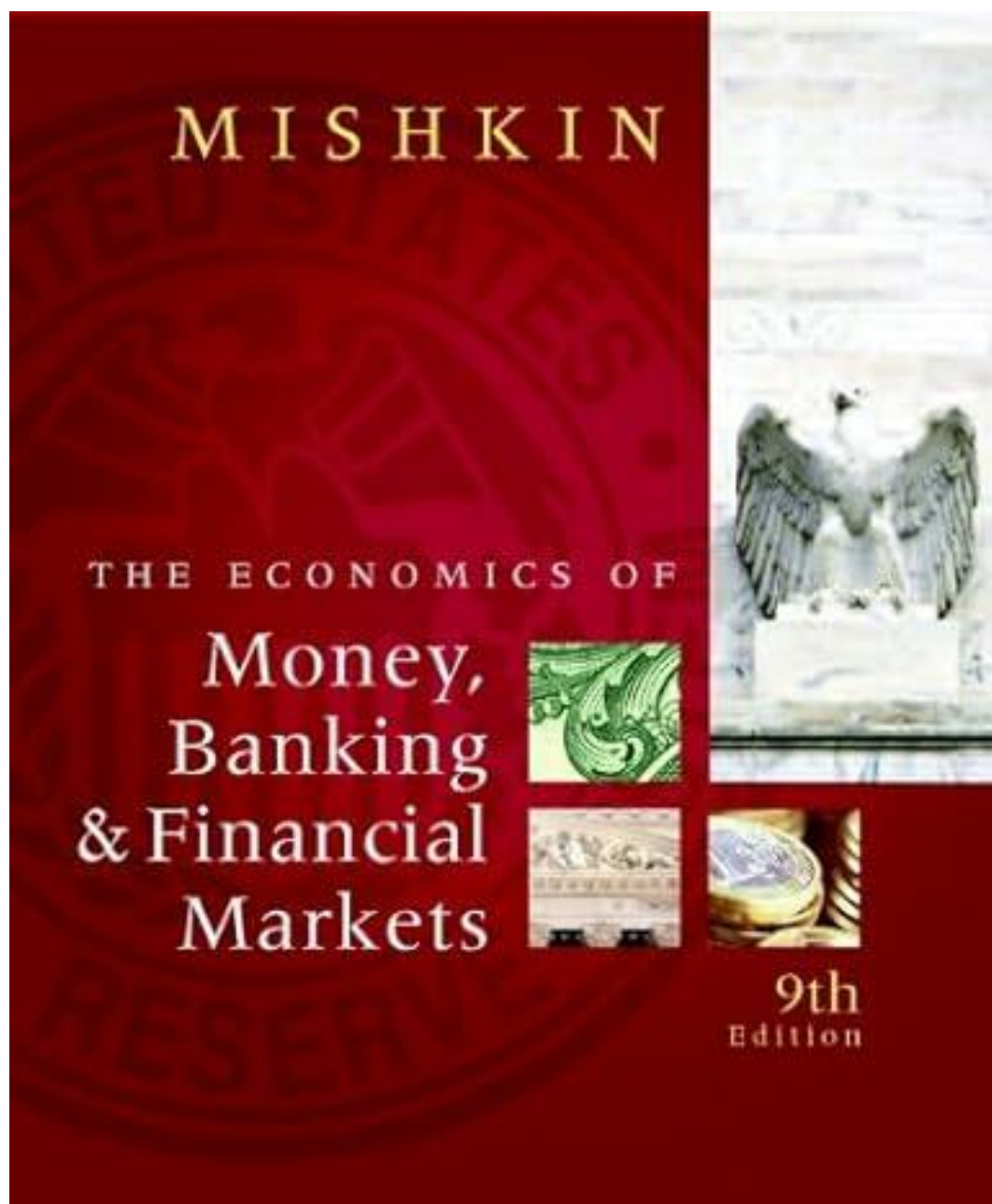


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Chapter 1

Why Study Money, Banking, and Financial Markets?

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.

Answer: C

Ques Status: Previous Edition

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

Answer: C

Ques Status: Previous Edition

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

Answer: D

Ques Status: Previous Edition

- 4) A key factor in producing high economic growth is
- A) eliminating foreign trade.
 - B) well-functioning financial markets.
 - C) high interest rates.
 - D) stock market volatility.

Answer: B

Ques Status: New

- 5) 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.

Answer: D

Ques Status: Previous Edition

- 6) _____ 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

Answer: C

Ques Status: Previous Edition

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

Answer: B

Ques Status: Previous Edition

- 8) 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.

Answer: C

Ques Status: Previous Edition

- 9) 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.

Answer: C

Ques Status: Previous Edition

- 10) 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

Answer: A

Ques Status: Previous Edition

11) The interest rate on Baa (medium quality) corporate bonds is _____, on average, than other interest rates, and the spread between it and other rates became _____ in the 1970s.

- A) lower; smaller
- B) lower; larger
- C) higher; smaller
- D) higher; larger

Answer: D

Ques Status: Previous Edition

12) Everything else held constant, a decline in interest rates will cause spending on housing to

- A) fall.
- B) remain unchanged.
- C) either rise, fall, or remain the same.
- D) rise.

Answer: D

Ques Status: Previous Edition

13) High interest rates might _____ purchasing a house or car but at the same time high interest rates might _____ saving.

- A) discourage; encourage
- B) discourage; discourage
- C) encourage; encourage
- D) encourage; discourage

Answer: A

Ques Status: New

14) An increase in interest rates might _____ saving because more can be earned in interest income.

- A) encourage
- B) discourage
- C) disallow
- D) invalidate

Answer: A

Ques Status: Previous Edition

15) Everything else held constant, an increase in interest rates on student loans

- A) increases the cost of a college education.
- B) reduces the cost of a college education.
- C) has no effect on educational costs.
- D) increases costs for students with no loans.

Answer: A

Ques Status: Previous Edition

- 16) High interest rates might cause a corporation to _____ building a new plant that would provide more jobs.
- A) complete
 - B) consider
 - C) postpone
 - D) contemplate

Answer: C

Ques Status: Previous Edition

- 17) 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.

Answer: B

Ques Status: Previous Edition

- 18) Stock prices are
- A) relatively stable trending upward at a steady pace.
 - B) relatively stable trending downward at a moderate rate.
 - C) extremely volatile.
 - D) unstable trending downward at a moderate rate.

Answer: C

Ques Status: Revised

- 19) A rising stock market index due to higher share prices
- A) increases people's wealth, but is unlikely to increase their willingness to spend.
 - B) increases people's wealth and as a result may increase their willingness to spend.
 - C) decreases the amount of funds that business firms can raise by selling newly-issued stock.
 - D) decreases people's wealth, but is unlikely to increase their willingness to spend.

Answer: B

Ques Status: Previous Edition

- 20) 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.

Answer: D

Ques Status: Previous Edition

- 21) 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.

Answer: B

Ques Status: Previous Edition

- 22) 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

Answer: A

Ques Status: Previous Edition

- 23) Low stock market prices might _____ consumers willingness to spend and might _____ businesses willingness to undertake investment projects.
- A) increase; increase
 - B) increase; decrease
 - C) decrease; decrease
 - D) decrease; increase

Answer: C

Ques Status: New

- 24) Fear of a major recession causes stock prices to fall, everything else held constant, which in turn causes consumer spending to
- A) increase.
 - B) remain unchanged.
 - C) decrease.
 - D) cannot be determined.

Answer: C

Ques Status: Previous Edition

- 25) A share of common stock is a claim on a corporation's
- A) debt.
 - B) liabilities.
 - C) expenses.
 - D) earnings and assets.

Answer: D

Ques Status: Revised

- 26) On _____, October 19, 1987, the market experienced its worst one-day drop in its entire history with the DJIA falling by more than 500 points.
- A) "Terrible Tuesday"
 - B) "Woeful Wednesday"
 - C) "Freaky Friday"
 - D) "Black Monday"

Answer: D

Ques Status: Previous Edition

- 27) The decline in stock prices from 2000 through 2002
- A) increased individuals' willingness to spend.
 - B) had no effect on individual spending.
 - C) reduced individuals' willingness to spend.
 - D) increased individual wealth.

Answer: C

Ques Status: Previous Edition

- 28) 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

Answer: C

Ques Status: Previous Edition

- 29) What is a stock? How do stocks affect the economy?

Answer: A stock represents a share of ownership of a corporation, or a claim on a firm's earnings/assets. Stocks are part of wealth, and changes in their value affect people's willingness to spend. Changes in stock prices affect a firm's ability to raise funds, and thus their investment.

Ques Status: Previous Edition

- 30) Why is it important to understand the bond market?

Answer: The bond market supports economic activity by enabling the government and corporations to borrow to undertake their projects and it is the market where interest rates are determined.

Ques Status: New

1.2 Why Study Financial Institutions and Banking?

- 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.

Answer: C

Ques Status: Previous Edition

- 2) A financial crisis is
- A) not possible in the modern financial environment.
 - B) a major disruption in the financial markets.
 - C) a feature of developing economies only.
 - D) typically followed by an economic boom.

Answer: B

Ques Status: New