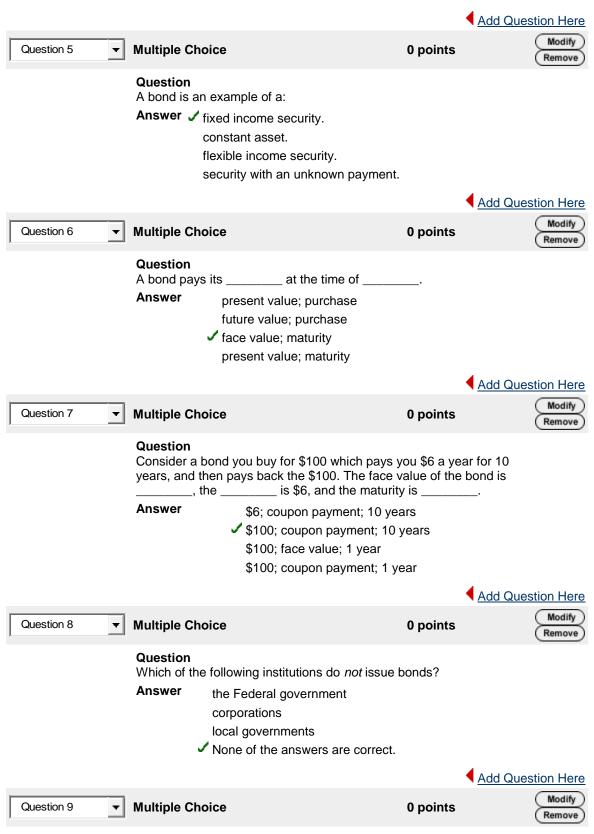
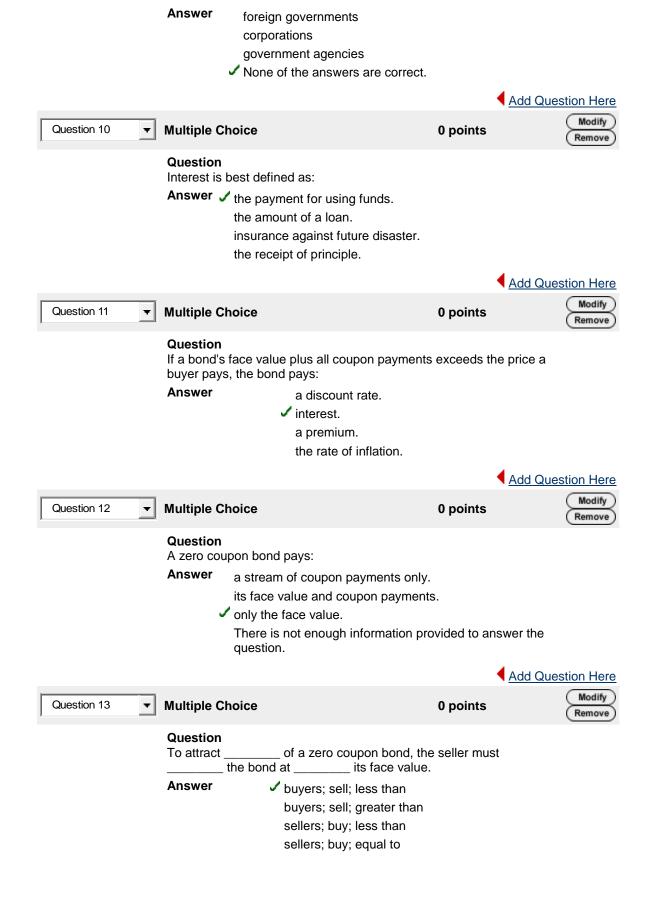
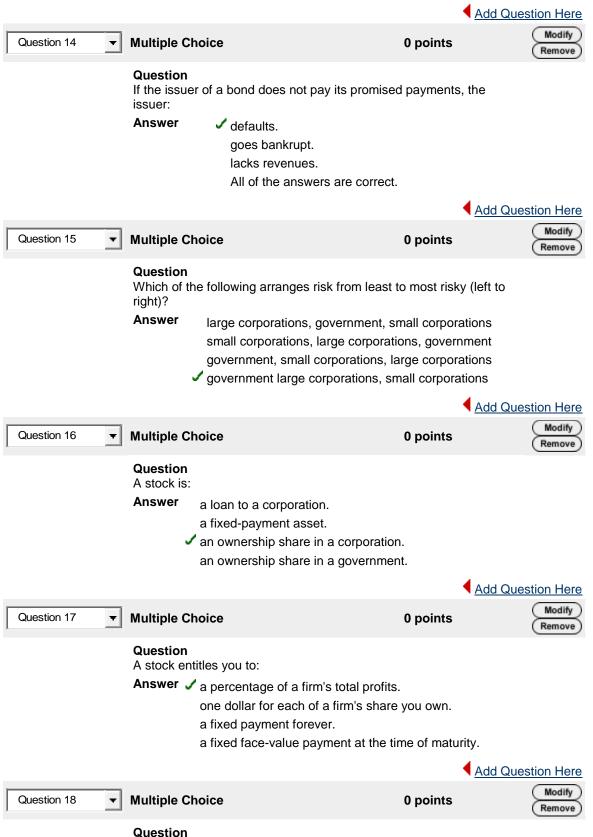
Description	Question pool for TestBanks Chapter 1 M	Iultiple-Choice Questions	
Instructions			Modify
		◀ <u>Add Qu</u>	estion He
Question 1	Multiple Choice	0 points	Modify
	Question Financial markets contain people and kinds of assets: and Answer travelers checks; ins currency; securities dollars; euros bonds; stocks	·	
		Add Qu	estion He
Question 2	Multiple Choice	0 points	Remov
	Question Financial markets are made up of peolassets. Answer buy sell print ✓ buy and se	ıll	
		Add Qu	estion He
Question 3	Multiple Choice	0 points	Remov
	Question A security is a claim on of ir Answer future flows the current amount the past flow the profits	ncome.	
		◀ <u>Add Qu</u>	estion He
Question 4	Multiple Choice	0 points	Modify
	Question Which of the following best defines a s Answer It is a claim on the past flo It is a claim on the depreci It is a fixed payment. It is a claim on the future flows.	w of income. ation of income.	

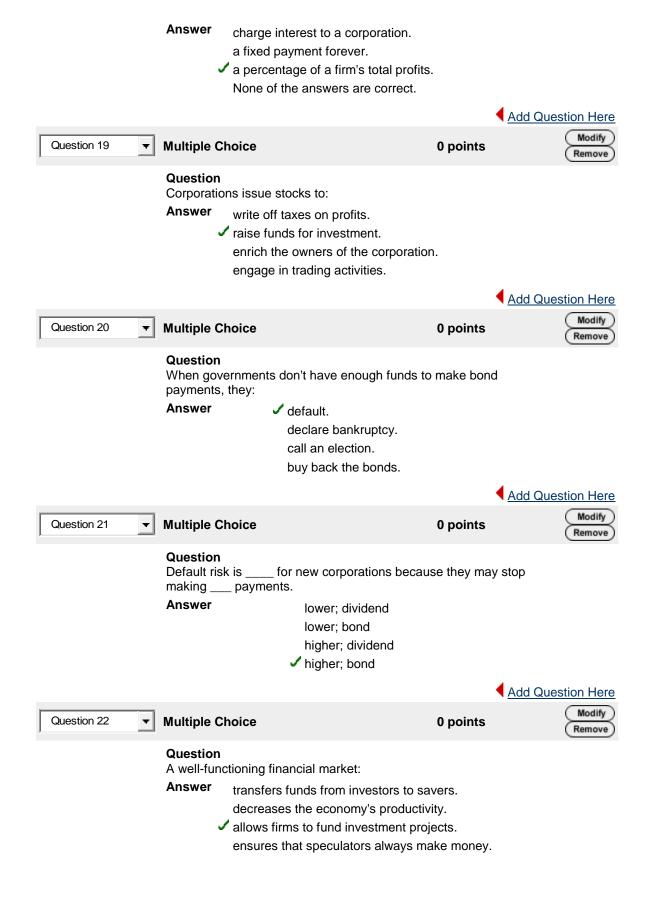


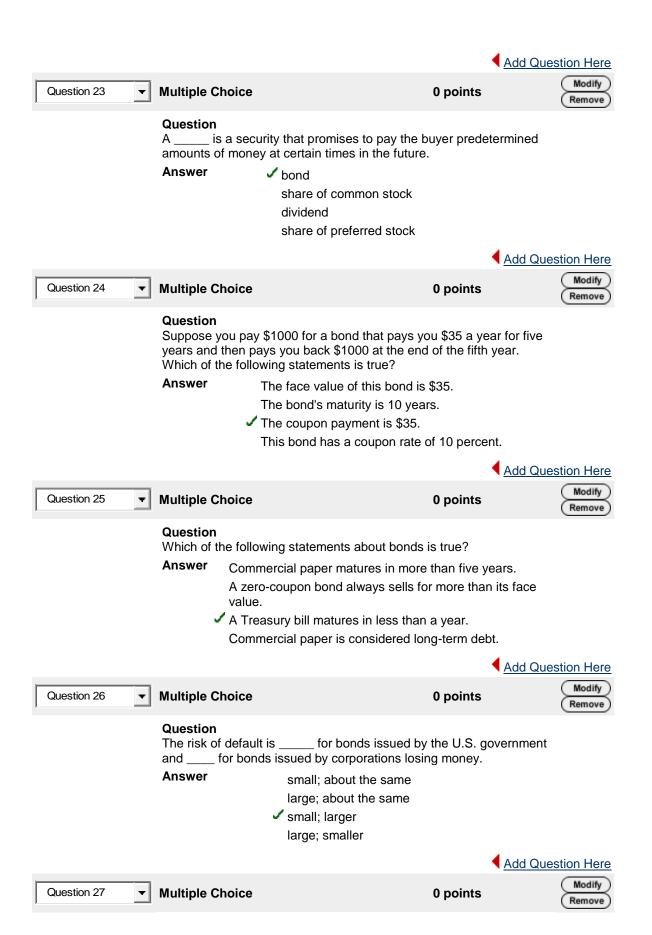
Which of the following institutions do *not* issue bonds?





A stock entitles you to:





of that corporation. ✓ The flow of income generated by stock is unpredictable. Stock prices are less volatile than bond prices. Add Question Here Modify **Multiple Choice** Question 28 0 points Remove Question Financial markets help transfer funds from the _____ to the **Answer** bankers; investors. depositors; bankers savers: investors investors; savers Add Question Here Modify Question 29 **Multiple Choice** 0 points Remove Question Which of the following explain(s) the importance of financial markets? I. They help channel funds from savers to investors with productive uses for the funds. II. They help people and firms share risks. III. They allow the rich to get richer. Answer I only II only I and II I, II, and III Add Question Here Modify Question 30 **Multiple Choice** 0 points Remove Question Which of the following definitions does the text use? **Answer** ✓ Savers are people who spend less than they earn. Investors are people who make risky purchases of paper assets. Savers are people who spend more than they earn. Investors are people who purchase stocks and bonds. Add Question Here Modify Question 31 **Multiple Choice** 0 points Remove

Which of the following statements about stock is true?

Holding bonds is usually riskier than holding stock.

If you own stock in a corporation, then you are a creditor

Question

Answer

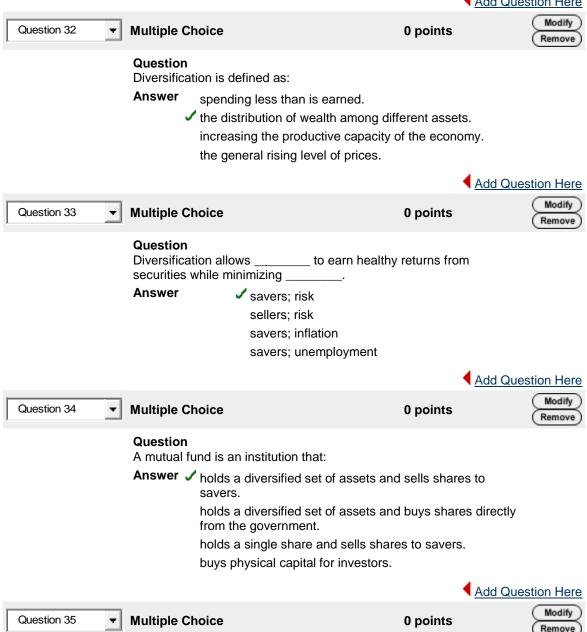
Which of the following definitions does the text use?

Answer ✓ Savers are people who spend less than they earn.

Investors are people who spend more than they earn. Investors are people who purchase stocks and bonds.

Savers are people who put all their excess income in savings accounts.





Question

Employees of Enron got into trouble because:

Answer they could only buy Enron stock for retirement.

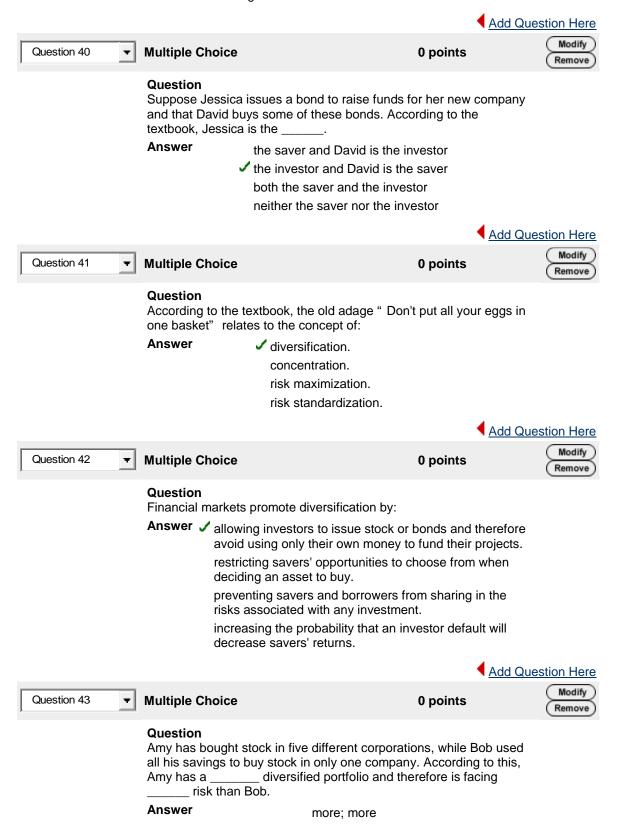
the majority of the 401(k) fund they saved in was devoted to Microsoft stock. Add Question Here Modify Question 36 **Multiple Choice** 0 points Question Firms which have a majority of their own stock in their employee 401(k) plans include: Answer General Electric. Pfizer. Procter & Gamble. All of the answers are correct. Add Question Here Modify Question 37 **Multiple Choice** 0 points Remove Question Financial markets help channel to and help people share **Answer** money; individuals; profits profits; companies; risk ✓ savings; investors; risk dividends; individuals; risk Add Question Here Modify Question 38 **Multiple Choice** 0 points Remove Question Many American workers save for their retirement through a 401(k) plan with their employer. This plan is generally a good idea if the 401(k) plan is ____ because the plan will be ____ risky. **Answer** invested in company stock; less invested in company stock; more diversified; less diversified; more Add Question Here Modify Question 39 **Multiple Choice** 0 points Remove Question Economic functions of financial markets include: **Answer** ✓ matching savers and investors. making sure no saver suffers a loss. decreasing the overall efficiency of the economy.

✓ the majority of the 401(k) fund they saved in was

devoted to Enron stock.

their pension fund went bankrupt.

making sure no investor suffers a loss.



less; more

✓ more; less
less; less





0 points



Question

When financial markets collapse and stop matching savers with investors:

Answer

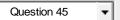
there are no consequences for the performance of the economy.

the economy benefits greatly from less speculation.

the economy usually suffers: production decreases and unemployment increases.

there are no consequences for the performance of the economy, and the economy benefits greatly from less speculation.





Multiple Choice

0 points



Question

Economists call the situation in which one side of an economic transaction has more information than the other:

Answer

a negative externality.

a fixed cost.

a lack of diversification.

✓ asymmetric information.

Add Question Here



Multiple Choice

0 points



Question

The problem of *adverse selection* arises when the owners of a security have a(n):

Answer

incentive to misbehave after an asset purchase.

incentive to behave according to expectations.

✓ incentive to give potential buyers bad information.

disincentive to give potential buyers bad information.





Multiple Choice

0 points



Question

The problem of *moral hazard* arises when the owners of a security have:

Answer

an incentive to give potential buyers bad information.

a disincentive to give potential buyers bad information. an incentive to behave according to expectations. Add Question Here Modify Question 48 **Multiple Choice** 0 points Remove Question Moral hazard and adverse selection are examples of: **Answer** irrational exuberance. asymmetric information. adaptive expectations. default risk. Add Question Here Modify Question 49 **Multiple Choice** 0 points Remove Question One reason that investors may be unwilling to purchase securities is because: **Answer** investors believe that economic growth is going to slow down. investors don't have enough information about the company. the company does not share all of the information with investors. All of the answers are correct. Add Question Here Modify Question 50 **Multiple Choice** 0 points Remove Question When the owner of a company does not act in the shareholders, best interest, the situation is known as: Answer moral hazard. adverse selection. asymmetric information. None of the answers is correct. Add Question Here Modify Question 51 **Multiple Choice** 0 points Remove Question When one participant in an economic transaction has more information than the other participant, the situation is known as: **Answer** uncertain information.

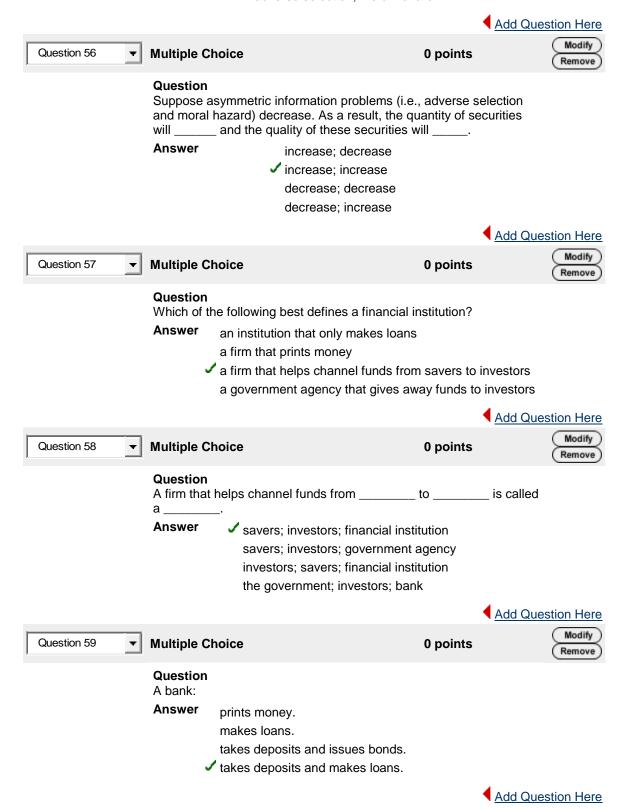
asymmetric information.
 perfect information.

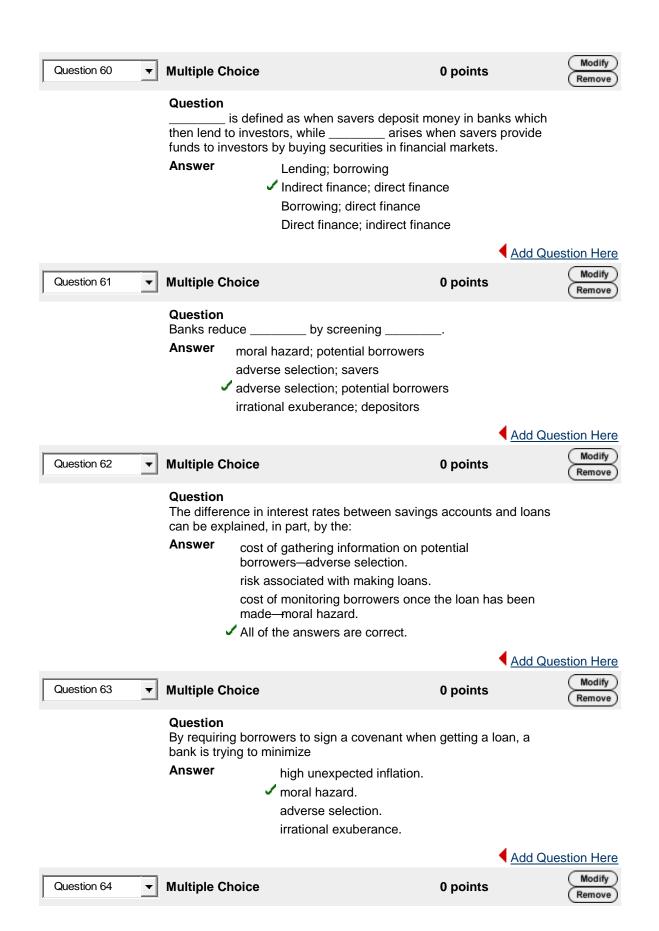
✓ little incentive to behave prudently after selling its asset.

symmetric information.

			Add Que	stion Here
Question 52	Multiple Choice		0 points	Modify Remove
	Question According to the adverse se eager to make a transaction the other side of the transaction be most eager to issue a se Answer	n are the des ction. For example, a	sirable to parties on a low-quality firm will	
			◀ <u>Add Que</u>	stion Here
Question 53	Multiple Choice		0 points	Modify Remove
	selection pro	of securities traded the same as if there	in the financial	
			4 A dd O	ation Hono
-			Add Que	estion Here
Question 54	Multiple Choice		0 points	Remove
	✓ adv	n about bond issuer		
			◀ Add Que	stion Here
Question 55	Multiple Choice		0 points	Modify Remove
	Question The asymmetric information occurs is known as problem that arises after the Answer moral hat	, while the asymmet	ric information vn as	

the free-rider problem; adverse selection adverse selection; the free-rider problem deverse selection; moral hazard





To minimize the problem of moral hazard when making a loan, a bank requires a borrower to:

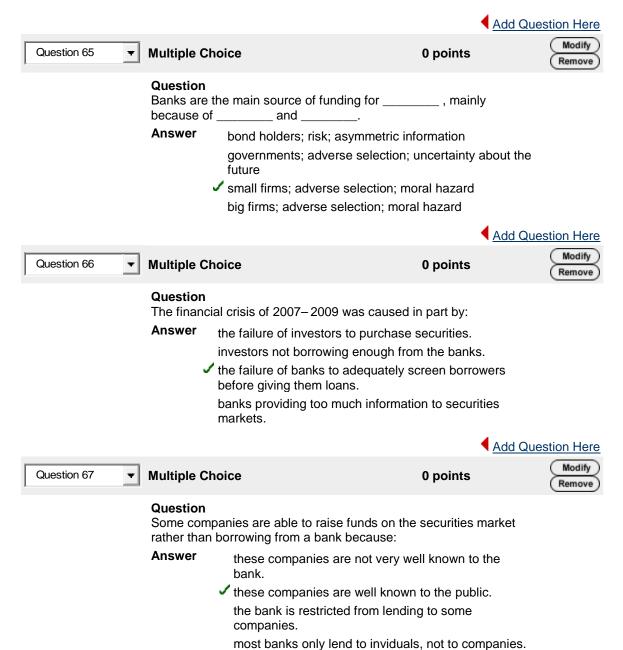
Answer ✓ sign a covenant.

use their car as collateral.

put up 50 percent of their own funds as a

downpayment.

None of the answers are correct.



Add Question Here

Question 68

Multiple Choice

0 points

Modify Remove

the individual with the good credit history, this is an example of: **Answer** microfinance. direct finance. adverse selection. moral hazard. Add Question Here Modify Question 69 **Multiple Choice** 0 points Remove Question Which of the following can be considered a "financial intermediary"? **Answer** a bank a stockbroker a securities dealer a member of the SEC Add Question Here Modify Question 70 **Multiple Choice** 0 points Question Which of the following institutions accept deposits and make loans? Answer investment banks commercial banks mutual funds pension funds Add Question Here Modify Question 71 **Multiple Choice** 0 points Remove Question Which of the following can be described as "indirect finance"? **Answer** You buy 400 shares of IBM stock. You buy \$5000 worth of ATT bonds. ✓ You deposit \$1000 in your local bank. You lend \$40 to your cousin. Add Question Here Modify Question 72 **Multiple Choice** 0 points Remove Question

Which of the following can be considered as "direct finance"?

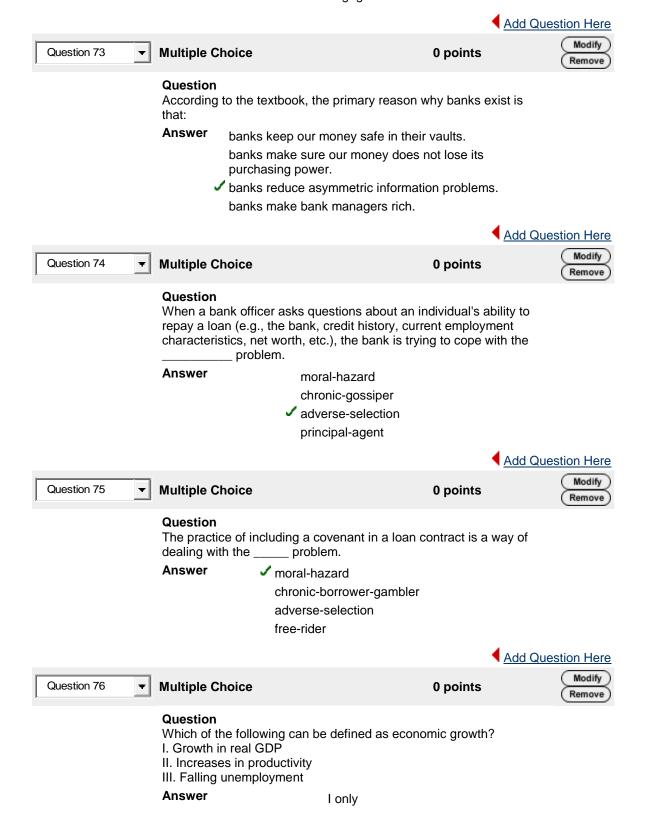
You buy \$3000 worth of Intel bonds.

Your friend gets a car loan from the local bank.

Individuals from two different businesses apply for a loan at a bank. If the individual with the bad credit history obtains a loan rather than

Question

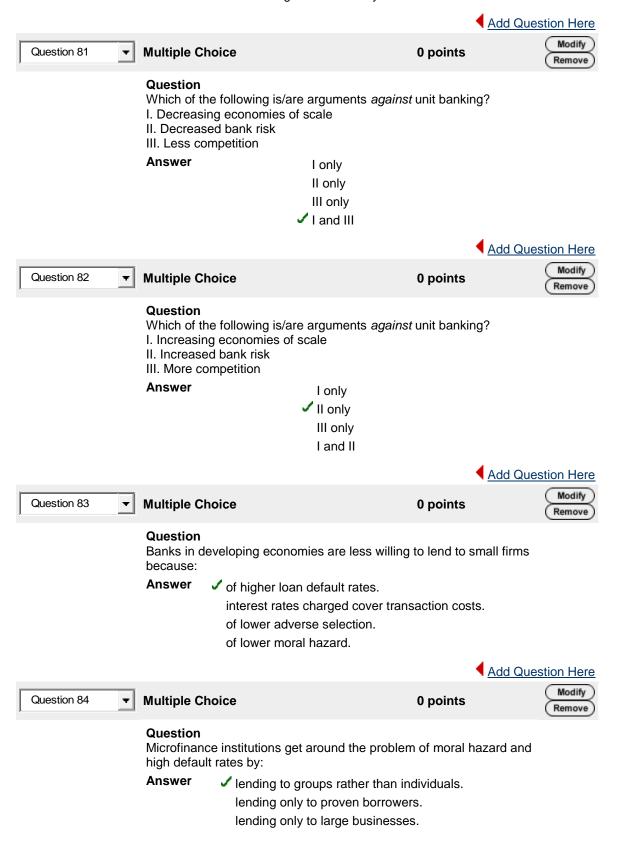
You deposit \$4000 in your savings account. You take out a mortgage loan at a bank.



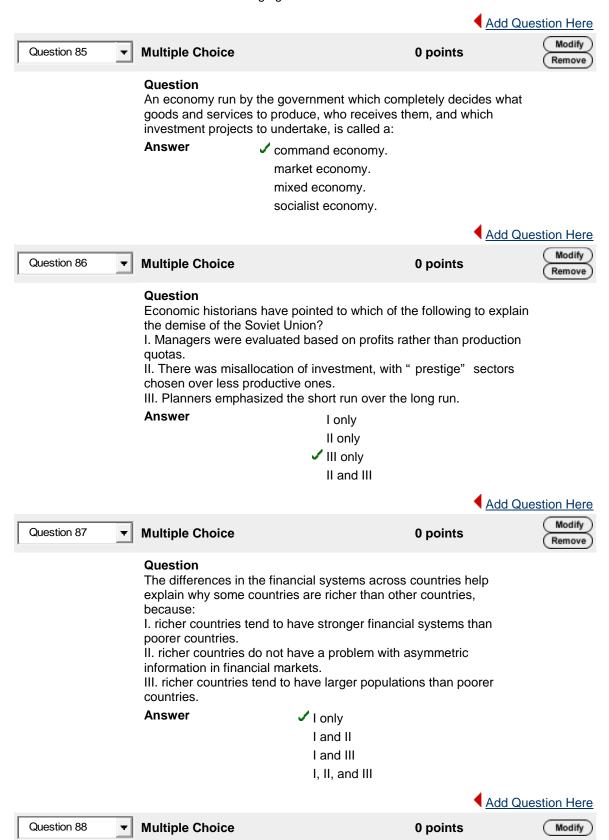
II only
III only
I and II

			◀ Add Que	stion Here
Question 77	Multiple Choice		0 points	Modify Remove
	Answer 🗸	for high long-run economic gro high savings rates. high consumption rates. low productivity. low rates of unemployment.		
			◀ <u>Add Que</u>	stion Here
Question 78	Multiple Choice		0 points	Remove
	and Answer in in hi	flation; financial development flation; economic growth gh rates of money growth; economic	nomic growth.	
			◀ <u>Add Que</u>	stion Here
Question 79	Multiple Choice		0 points	Modify Remove
	Question Researchers four	and that countries with	_ in the 1960s had	
	Answer stror	ng financial systems; economic Os	growth during the	
		ng financial systems; economic ades after the 1960s	growth in the	
		ker financial systems; inflation 1960s	in the decades after	
	stror	ng financial systems; inflation b	efore the 1960s	
			◀ <u>Add Que</u>	stion Here
Question 80	Multiple Choice		0 points	Modify Remove
	Question The restriction the state is called: Answer	nat requires that banks operate asymmetric information. unit banking. moral hazard.	in no more than one	

a negative externality.



charging usurious interest rates.



Remove Question Many microfinance institutions help the economies in developing countries grow by: I. only lending to people who borrow as part of a group. II. lending primarily to women. III. requiring borrowers to operate as a not-for-profit business. **Answer** I only II only III only I. II. and III Add Question Here Modify Question 89 **Multiple Choice** 0 points Remove Question Centrally planned economies often outperform market-based economies in the short run because: **Answer** the government can identify the most productive investment projects. prices in market-based economies do not reflect consumer demand. ✓ the government controls the economy's resources and can require high levels of investment. government employees are very efficient. Add Question Here Modify Question 90 **Multiple Choice** 0 points Remove Question Many East Asian countries, such as Taiwan, Singapore, and South Korea, rapidly moved from the world's poorest countries to among the world's richest countries in three decades. The main reason for this progress was because: **Answer** their governments directed resources to the best investment projects. banks in these countries were not allowed to engage in cross-border business. their governments did not create a strong financial system. these countries had high saving rates. Add Question Here Modify Question 91 **Multiple Choice** 0 points Remove Question Which of the following statements about the link between the

savings rate and the financial system is true?

A low savings rate and an underdeveloped financial

Answer

system will create economic growth. ✓ A high savings rate and a strong financial system can create economic growth. A high savings rate and an underdeveloped financial system will create economic growth. All of the answers are correct. 0 points



Question 92

Multiple Choice



Question

Which of the following statements about financial systems is true?

Answer

Forcing firms to provide information about their investment and expected profits results in an underdeveloped financial system.

✓ Financial systems of different countries have different. regulations.

When financial systems cannot work properly, it is easy for investors to get funds.

All countries make sure that bank depositors have their deposits insured.



Question 93 **Multiple Choice**

0 points



Question

Recent research about the link between the financial system and economic growth suggests that:

Answer ✓ a strong financial system can spur economic growth. the efficiency of the financial system is irrelevant for economic growth.

> a weak financial system promotes economic growth. there is no link at all between the financial system and economic growth.



Question 94

Multiple Choice

0 points



Question

According to the textbook, unit banking:

Answer

allowed banks to exploit economies of scale. increased competition in the banking industry. allowed banks to diversify their loans portfolio.

None of the answers are correct.

Add Question Here

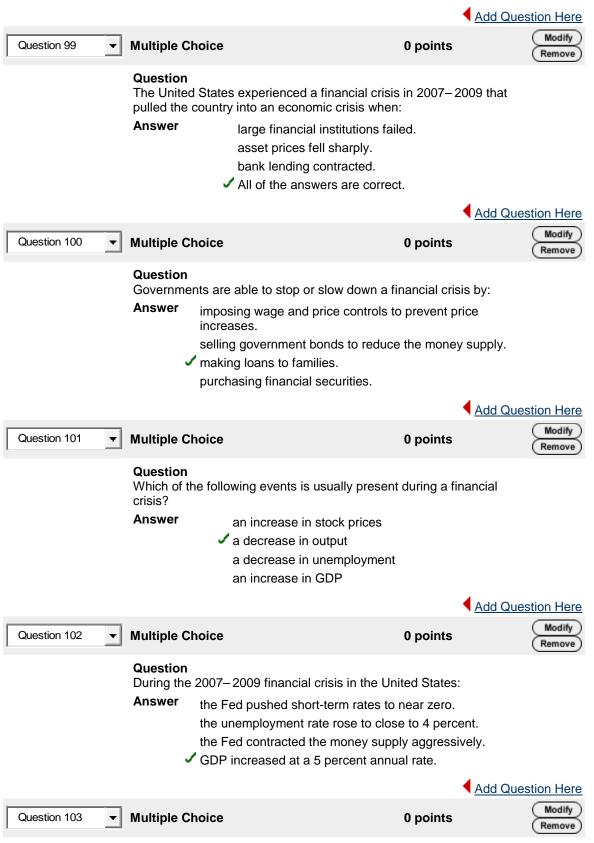


Multiple Choice

0 points



Question According to the textbook, unit banking ___ __ competition in the banking industry and _ _____ banks to exploit economies of scale. **Answer** increased; did not allow decreased; encouraged decreased; did not allow increased; encouraged Add Question Here Modify Question 96 **Multiple Choice** 0 points Remove Question Which of the following can be considered a consequence of unit banking? **Answer** ✓ Banks usually operated as monopolists, charging high fees and providing poor service. Funds flowed more easily from savers to investors. The banking industry in the United States became more efficient. Unit banking promoted competition in the U.S. banking industry. Add Question Here Modify Question 97 **Multiple Choice** 0 points Remove Question According to historical evidence, a centrally planned economy: **Answer** efficiently allocates funds by deciding which investment project must be funded. ✓ shows that free financial markets are critical for the proper allocation of funds and economic growth. is a better alternative than free markets when considering how to allocate funds. always resulted in more efficient financial systems and higher economic growth than free market economies. Add Question Here Modify Question 98 **Multiple Choice** 0 points Remove Question According to the textbook, the centrally planned economy of the Soviet Union: **Answer** overinvested in heavy industry. underinvested in consumer goods. allowed a free financial market to allocate funds to their most productive use. overinvested in heavy industry and underinvested in consumer goods.



Inflation is defined as:

Answer

the percentage change of the price of oil over a period of time.

the difference in the aggregate price level over a period of time.

✓ the percentage increase in the aggregate price level over a period of time.

today's aggregate price level divided by yesterday's price level.





0 points



Question

Real GDP is defined as:

Answer ✓ nominal GDP divided by the aggregate price level.

the total value of all goods and services produced in an economy in a given period at current prices.

the aggregate price level divided by nominal GDP.

the types of goods and services produced.



Question 105 🔻

Multiple Choice

0 points



Question

Which of the following is true?

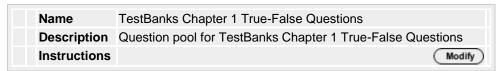
Answer 🗸

real GDP = nominal GDP x aggregate price level

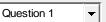
$$nominal GDP = \frac{real GDP}{aggreg ate price level}$$

$$aggregate price level = \frac{real GDP}{nominal GDP}$$





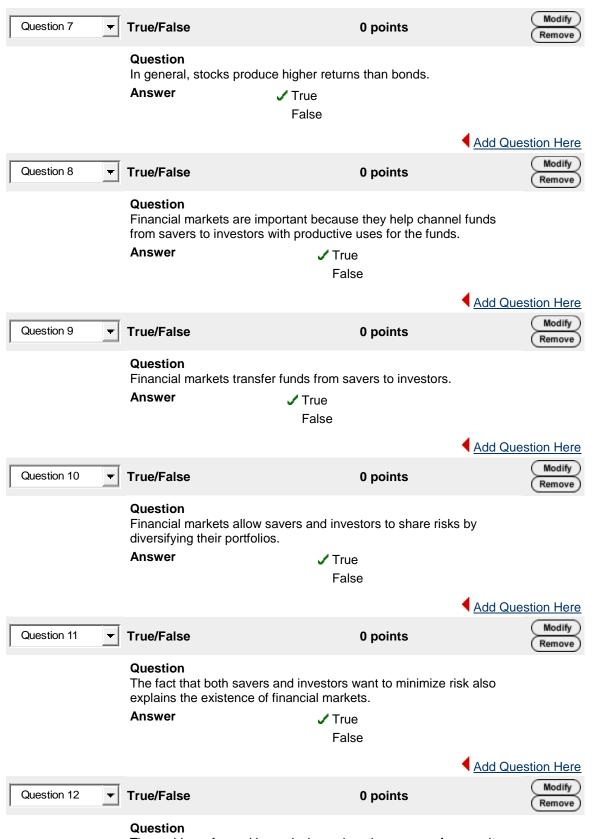
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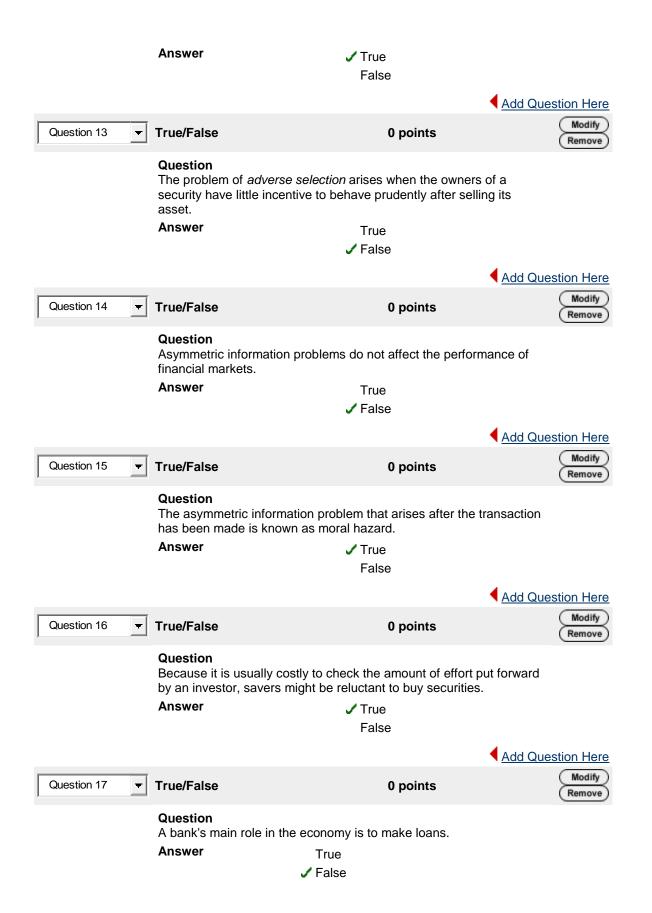


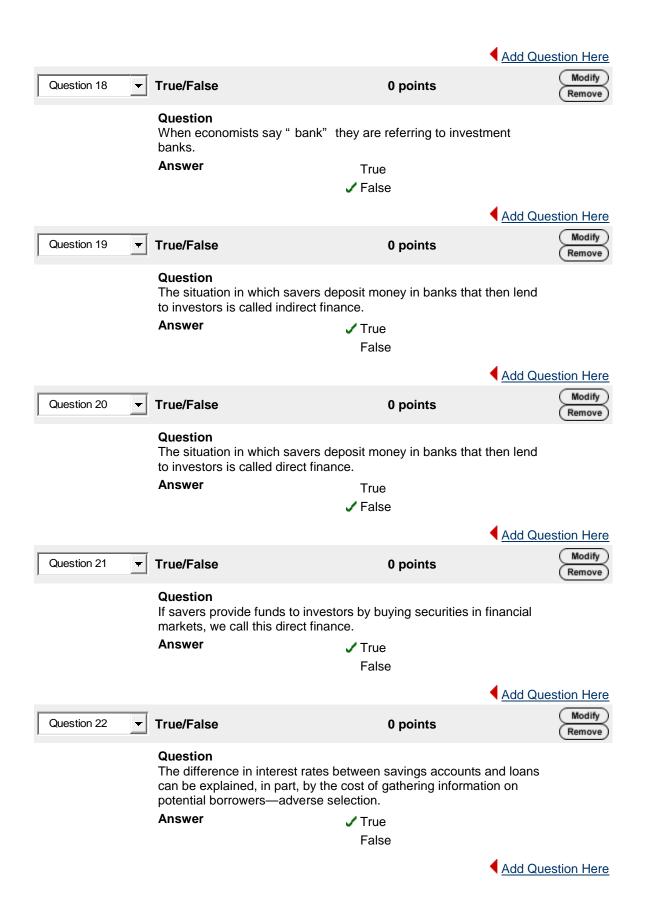
		True		
	<i>></i>	False		
				Add Question Here
Question 2	True/False		0 points	Modify Remove
	Question Corporations and go Answer	overnments issue bo True False	onds.	
				Add Question Here
Question 3	True/False		0 points	Modify Remove
	Question A stockholder know Answer	s exactly how much True False		
				Add Question Here
Question 4	True/False		0 points	Modify Remove
	Question Stockholders have Answer	voting rights while bo ✓ True False	ondholders do	
				Add Question Here
Question 5	True/False		0 points	(Modify) Remove
	Question When a corporation to those who buy th Answer	or government issue e bonds. True ✓ Fals	e	s lending money
				Add Question Here
Question 6	True/False		0 points	Modify Remove
	Question All bonds have the s Answer	same default risk. True False		
				Add Question Here

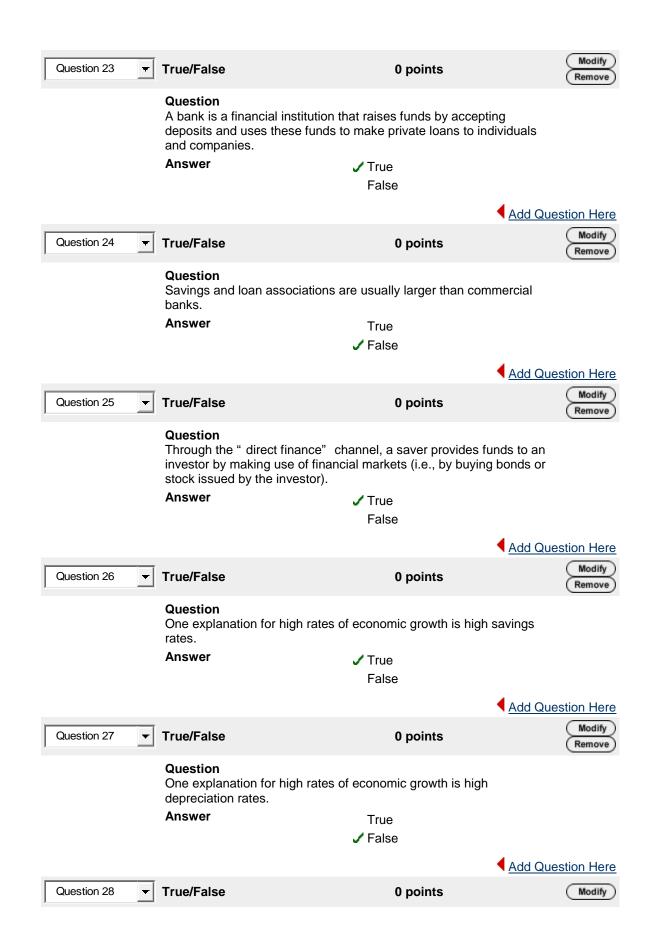
All bonds have the same maturity.

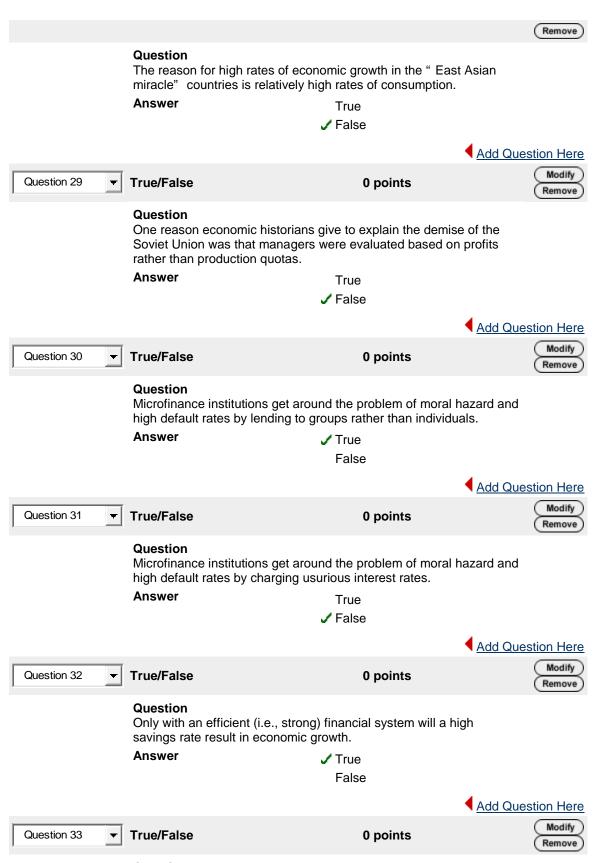


The problem of *moral hazard* arises when the owners of a security have little incentive to behave prudently after selling its asset.



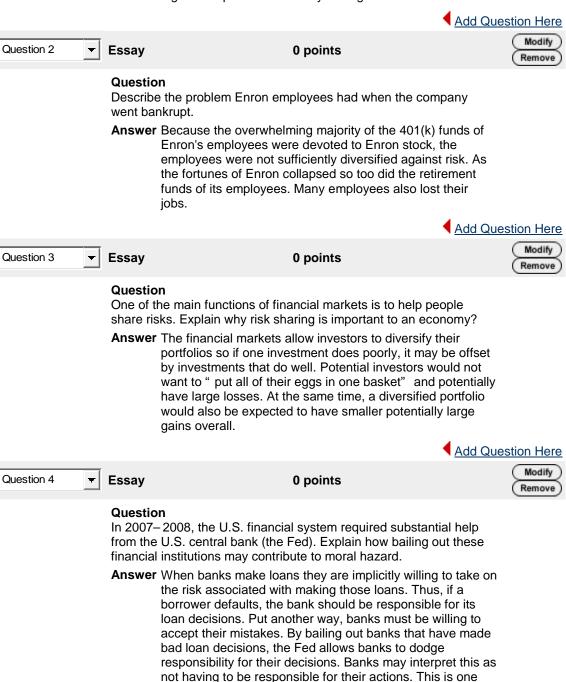






Financial systems of all countries have the same government regulations. **Answer** True ✓ False Add Question Here Modify Question 34 True/False 0 points Remove Question During a financial crisis, asset prices usually drop and the unemployment rate usually increases. **Answer** ✓ True False Add Question Here Modify Question 35 True/False 0 points Remove Question Nominal GDP is the total value of all goods and services produced in an economy in a given period at constant prices. Answer ✓ False Add Question Here Modify Question 36 True/False 0 points Remove Question Economists prefer to use real GDP because it is distorted by price changes. **Answer** True False Add Question Here OK TestBanks Chapter 1 Short-Answer Questions **Description** Question pool for TestBanks Chapter 1 Short-Answer Questions Instructions Modify Add Question Here Modify Question 1 **Essay** 0 points Remove Question Explain the key differences between a bond and a stock. **Answer** A bond has a fixed schedule of payments, when and how much. Owners of bonds do not have a say in the way the bond issuer acts. The characteristics of a stock are: stock

payments are uncertain and may change depending on the profits earned by the firm, and stockholders have voting rights. Because of uncertainty, stocks are riskier and carry higher risk premia and thus yield higher returns.



argument that was made during the U.S. subprime crisis.

0 points

Add Question Here

Modify

Remove

Essay

Question 5

In September 2008, the American financial system required substantial help from the U.S. government and the central bank. Most of the problems had the same root cause—asymmetric information and its twin problems of adverse selection and moral hazard. Explain how asymmetric information contributed to the financial crisis and how the government's support of the financial system addressed the problems of adverse selection and moral hazard.

Answer The financial markets experienced difficulty in the fall of September 2008 largely because shareholders and debtholders lost confidence in the ability of companies to avoid bankruptcy and to pay their debt obligations. Shareholders had less information than the companies about their future financial prospects. Adverse selection became a problem because only the firms that were desperate for funding were entering the market. Moral hazard arose when the firms engaged in behavior that was detrimental to investors, but the investors could not monitor this behavior. The government addressed these problems by providing \$700 billion in financial assistance to bail out the financial firms. This financing gave investors the confidence to return to the market, since the government would bear the risk if the company would not be able to fulfill its obligations.



Question

List, and explain, the basic functions of a bank.

Answer The basic functions of a bank are taking deposits and making loans. In performing these basic functions, banks must also be responsible for monitoring and screening potential borrowers to minimize problems associated with asymmetric information.



Question

Explain how banks reduce adverse selection.

Answer When a potential borrower approaches a bank for a loan, the bank wants to ensure that the borrower will be able to pay back the loan. However, the bank has difficulty separating those who will pay back the loan and those who will not because it does not have the same information that the potential borrowers do. Borrowers who have a higher risk of default tend to be more eager to borrow funds than those who have a low risk. This behavior drives the good risks out of the market. Banks reduce this adverse selection by asking potential borrowers to provide information about their credit history, their business plans, and their financial status.



Explain how strong financial markets contribute to economic growth.

Answer By households having a place to save, savings rates increase and those savings can be loaned for productive purposes. Financial markets allow economies to minimize risk through screening, monitoring, and diversifying loans across a variety of firms or sectors.



Question

Essay

Question 9

A country's rate of economic growth depends on a variety of factors. Please explain how government policies toward financial markets affect economic growth.

0 points

Answer Countries with strong financial systems tend to have stronger economic growth than countries with weak financial systems. Countries with strong financial systems tend to channel savings toward its most productive uses. Governments promote strong financial systems in many ways, including (1) requiring publicly trading firms to prepare annual reports and (2) providing insurance for bank deposits.



Question

Explain how the financial crisis of 2007–2009 affected economic growth in the United States.

Answer When the financial crisis erupted, the U.S. economy was already in a recession and the collapse of the financial markets worsened the economic downturn, as savers became unwilling to invest in the stock market. The uncertainty over the economy, combined with a reluctance of banks to make loans, led firms to scale back their investment plans and prevented small businesses from obtaining the funds needed by their businesses. These negative events reinforced one another and, when combined with the additional borrowing by the Federal government in the face of tax revenue declines due to the recession, caused economic growth to slow.

