Chapter 1—Introduction to Money and Banking

MULTIPLE CHOICE

1. Economic policy affects
   a. only the amount of money in the economy.
   b. how banks operate and only banks.
   c. the entire financial system.
   d. how financial securities are traded and no other part of the financial system.

   ANS: C PTS: 1 DIF: Basic
   TOP: Introduction to Money and Banking TYP: Factual

2. A financial policymaker not mentioned in Chapter 1 is the
   a. Securities and Exchange Commission (SEC).
   b. Federal Deposit Insurance Corporation (FDIC).
   c. Consumer Financial Protection Bureau (CFPB).
   d. Federal Reserve System (the Fed).

   ANS: C PTS: 1 DIF: Basic
   TOP: Introduction to Money and Banking TYP: Factual

3. The policymaking institution that determines the money supply, sets the rules for how checks are cleared and how banks obtain new currency, and determines what activities banks may or may not engage in and whether banks are operating in a prudent fashion is the
   a. Treasury Department.
   b. Commerce Department.
   c. Securities and Exchange Commission.
   d. Federal Reserve System.

   ANS: D PTS: 1 DIF: Basic
   TOP: Introduction to Money and Banking TYP: Factual

4. Earning interest on past interest is
   a. present value.
   b. super interest.
   c. compounding.
   d. interest squared.

   ANS: C PTS: 1 DIF: Basic
   TOP: Introduction to Money and Banking TYP: Factual

5. More than half of all U.S. dollars can be found
   a. in foreign countries.
   b. in the United States.
   c. in the underground economy.
   d. in bank vaults.

   ANS: A PTS: 1 DIF: Basic
   TOP: Introduction to Money and Banking TYP: Factual

6. Americans should not worry about all the dollars held by foreigners because
   a. foreigners like Americans.
   b. taxes are lower as a result.
   c. interest rates are lower as a result.
   d. stock prices are higher as a result.

   ANS: B PTS: 1 DIF: Basic
   TOP: Introduction to Money and Banking TYP: Factual

7. Interest rates on long-term loans are generally ____ than interest rates on short-term loans in part because ____ loans are riskier.
   a. lower; short-term
   b. lower; long-term
   c. higher; long-term
   d. higher; short-term

   ANS: C PTS: 1 DIF: Basic
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8. The expected rate of change of prices is known as the
   a. forecasted mean CPI.
   b. Okun's law coefficient.
   c. natural rate of interest.
   d. expected inflation rate.

   ANS: D PTS: 1 DIF: Basic
   TOP: Introduction to Money and Banking TYP: Factual

9. The nominal interest rate minus the expected inflation rate equals the
   a. potential interest rate.
   b. natural interest rate.
   c. true interest rate.
   d. real interest rate.

   ANS: D PTS: 1 DIF: Basic
   TOP: Introduction to Money and Banking TYP: Factual

10. Buying stocks gives an investor
    a. a very low but safe return.
    b. ownership in corporations.
    c. the most risk possible in the market.
    d. a pure, speculative gamble.

    ANS: B PTS: 1 DIF: Basic
    TOP: Introduction to Money and Banking TYP: Factual

11. During the 2000s, banks became complacent about making mortgage loans because
    a. there was not a single bank failure in the decade.
    b. bank stocks performed better than the rest of the stock market.
    c. the banks counted on housing prices to keep appreciating.
    d. the government eliminated the FDIC.

    ANS: C PTS: 1 DIF: Basic
    TOP: Introduction to Money and Banking TYP: Factual

12. When the overall level of business activity declines persistently, there is said to be
    a. a revolution.
    b. a depression.
    c. a recession.
    d. a banana.

    ANS: C PTS: 1 DIF: Basic
    TOP: Introduction to Money and Banking TYP: Factual

13. Economists who try to predict recessions find that recessions are
    a. easy to predict.
    b. difficult to predict.
    c. easy to predict in recent years, but they were more difficult to predict before 2000.
    d. non-existent since 2000.

    ANS: B PTS: 1 DIF: Basic
    TOP: Introduction to Money and Banking TYP: Factual

14. The Federal Reserve creates money by
    a. printing bills and dropping them from helicopters.
    b. giving dollar bills to banks to circulate.
    c. changing a number in its computer system.
    d. spending money on government purchases.

    ANS: C PTS: 1 DIF: Basic
    TOP: Introduction to Money and Banking TYP: Factual

15. In the long run, the Federal Reserve can affect
    a. inflation.
    b. output.
    c. unemployment.
    d. the exchange rate.

    ANS: A PTS: 1 DIF: Basic
    TOP: Introduction to Money and Banking TYP: Factual

16. The simple equation that can be used to predict how the Federal Reserve will change interest rates is known as
    a. the Phillips relation.
    b. the Sharpe ratio.
    c. Okun's law.
    d. the Taylor rule.

    ANS: D PTS: 1 DIF: Basic
    TOP: Introduction to Money and Banking TYP: Factual