MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Financial markets promote economic efficiency by
   A) creating inflation.
   B) channeling funds from savers to investors.
   C) reducing investment.
   D) channeling funds from investors to savers.

2) 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) redistribution.
   B) financial intermediation.
   C) taxation.
   D) barter.

3) ______ theory relates the quantity of money and monetary policy to changes in aggregate economic activity and inflation.
   A) Financial
   B) Monetary
   C) Fiscal
   D) Systemic

4) There is a ______ association between inflation and the growth rate of money ______.
   A) positive; demand
   B) positive; supply
   C) negative; supply
   D) negative; demand

5) Budgets deficits can be a concern because they might
   A) lead to a slower rate of money growth.
   B) ultimately lead to higher inflation.
   C) lead to lower interest rates.
   D) lead to higher bond prices.

6) Budget deficits are important because deficits
   A) can result in higher rates of monetary growth.
   B) cause bank failures.
   C) always cause interest rates to fall.
   D) always cause prices to fall.

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

8) Banks are important to the study of money and the economy because they
   A) are the only important financial institution in the U.S. economy.
   B) have been a source of rapid financial innovation.
   C) create inflation.
   D) channel funds from investors to savers.

9) Financial intermediaries
   A) produce nothing of value and are therefore a drain on society’s resources.
   B) can hurt the performance of the economy.
   C) hold very little of the average American’s wealth.
   D) provide a channel for linking those who want to save with those who want to invest.
10) Banks, savings and loan associations, mutual savings banks, and credit unions
A) are no longer important players in financial intermediation.
B) since deregulation now provide services only to small depositors.
C) produce nothing of value and are therefore a drain on society’s resources.
D) have been adept at innovating in response to changes in the regulatory environment.

11) Financial institutions search for ________ has resulted in many financial innovations.
A) higher profits       B) respect            C) regulations       D) higher risk

12) Banks and other financial institutions engage in financial intermediation, which
A) has no effect on economic performance.
B) can benefit economic performance.
C) can hurt the performance of the economy.
D) involves borrowing from investors and lending to savers.

13) Financial institutions that accept deposits and make loans are called
A) finance companies.    B) exchanges.        C) over-the-counter markets.  D) banks.

14) The financial intermediaries that the average person interacts with most frequently are
A) exchanges.            B) over-the-counter markets.  C) banks.

15) Which of the following is not a financial institution?
A) a business college    B) a credit union  
C) a pension fund        D) a life insurance company

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

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

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

19) 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) derivative exchange markets. B) financial markets.
C) commodity markets.            D) fund-available markets.

20) ________ markets transfer funds from people who have an excess of available funds to people who have a shortage.
A) Derivative exchange       B) Financial 
C) Commodity                D) Fund-available
21) Poorly performing financial markets can be the cause of
   A) wealth. B) financial stability.
   C) financial expansion. D) poverty.

22) The bond markets are important because they are
   A) the markets where interest rates are determined.
   B) the markets where all borrowers get their funds.
   C) easily the most widely followed financial markets in the United States.
   D) the markets where foreign exchange rates are determined.

23) 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) aggregate price level. B) exchange rate.
   C) inflation rate. D) interest rate.

24) Compared to interest rates on long-term U.S. government bonds, interest rates on three-month
   Treasury bills fluctuate ______ and are ______ on average.
   A) less; higher B) more; higher
   C) less; lower D) more; lower

25) 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) higher; smaller B) lower; larger
   C) higher; larger D) lower; smaller

26) Everything else held constant, a decline in interest rates will cause spending on housing to
   A) either rise, fall, or remain the same. B) fall.
   C) remain unchanged. D) rise.

27) High interest rates might ______ purchasing a house or car but at the same time high interest
   rates might ______ saving.
   A) encourage; encourage B) discourage; encourage
   C) discourage; discourage D) encourage; discourage

28) An increase in interest rates might ______ saving because more can be earned in interest income.
   A) encourage B) discourage C) invalidate D) disallow

29) Everything else held constant, an increase in interest rates on student loans
   A) reduces the cost of a college education. B) increases the cost of a college education.
   C) has no effect on educational costs. D) increases costs for students with no loans.

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

31) The stock market is important because it is
    A) the market where most borrowers get their funds.
    B) where interest rates are determined.
    C) where foreign exchange rates are determined.
    D) the most widely followed financial market in the United States.
32) Stock prices are
   A) extremely volatile.
   B) relatively stable trending downward at a moderate rate.
   C) unstable trending downward at a moderate rate.
   D) relatively stable trending upward at a steady pace.

33) 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) decreases people's wealth, but is unlikely to increase their willingness to spend.
   C) decreases the amount of funds that business firms can raise by selling newly-issued stock.
   D) increases people's wealth and as a result may increase their willingness to spend.

34) When stock prices fall
   A) an individual's wealth may decrease but their willingness to spend is not affected.
   B) an individual's wealth may decrease and their willingness to spend may decrease.
   C) an individual's wealth is not affected nor is their willingness to spend.
   D) a business firm will be more likely to sell stock to finance investment spending.

35) Changes in stock prices
   A) occur in regular patterns.
   B) affect firms' decisions to sell stock to finance investment spending.
   C) do not affect people's wealth and their willingness to spend.
   D) are unimportant to decision makers.

36) An increase in stock prices ______ the size of people's wealth and may ______ their willingness
    to spend, everything else held constant.
   A) decreases; decrease
   B) increases; decrease
   C) decreases; increase
   D) increases; increase

37) Low stock market prices might ______ consumers' willingness to spend and might ______
    businesses' willingness to undertake investment projects.
   A) decrease; increase
   B) increase; decrease
   C) increase; increase
   D) decrease; decrease

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

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

40) On ______ October 19, 1987, the market experienced its worst one-day drop in its entire history
    with the DJIA falling by 22%.
   A) "Woeful Wednesday"
   B) "Black Monday"
   C) "Terrible Tuesday"
   D) "Freaky Friday"
41) The decline in stock prices from 2000 through 2002
   A) increased individual wealth.
   B) reduced individuals' willingness to spend.
   C) had no effect on individual spending.
   D) increased individuals' willingness to spend.

42) The Dow reached a peak of over 11,000 before the collapse of the _______ bubble in 2000.
   A) high-tech               B) banking               C) housing               D) manufacturing
1) B
2) B
3) B
4) B
5) B
6) A
7) B
8) B
9) D
10) D
11) A
12) B
13) D
14) C
15) A
16) B
17) A
18) A
19) B
20) B
21) D
22) A
23) D
24) D
25) C
26) D
27) B
28) A
29) B
30) D
31) D
32) A
33) D
34) B
35) B
36) D
37) D
38) B
39) D
40) B
41) B
42) A