1. 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.

2. 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.

3. Prior to all recessions since 1900, there has been a drop in

A) inflation.

B) interest rates.

C) the money stock.

D) the growth rate of the money stock.

4. GDP measured at existing prices is referred to as

A) realGDP.

B) nominalGDP.

C) theGDP deflator.

D) industrial production.

Use the following information to answer questions 5 & 6.

Time period 1995 1996 1997 1998 1999

Price index 100 120 140 142 130

5.During the time from period 1995 through period 1997,

A) the annual rate of inflation rises.

B) the annual rate of inflation falls.

C) prices are relatively stable when compared to the other periods.

D) deflation is rapid.

6.During the time from period 1997 through period 1998,

A) the annual rate of inflation rises.

B) the annual rate of deflation declines rapidly.

C) the annual rate of deflation increases rapidly.

D) prices are relatively stable when compared to the other periods.

7. Which of the following is NOT a key financial service provided by the financial system?

A) Sharing risk B) Creating profit C) Creating liquidity D) Providing information

8. Which of the following rankings of sources of funds for businesses from the least important to the most

important is correct?

A) Stock issues, bond issues, loans from financial institutions

B) Bond issues, stock issues, loans from financial institutions

C) Loans from financial institutions, stock issues, bond issues

D) Loans from financial institutions, bond issues, stock issues

9. Securitization is the process of

A) issuing stocks to finance capital spending.

B) issuing bonds to finance purchases of equipment and structures.

C) reducing risk by decreasing corporate debt loads.

D) converting non liquid financial assets into liquid financial assets

10. If real GDP in 2002 is $10 trillion, and in 2003 real GDP is $9.5 trillion, then real GDP growth from 2002 to 2003 is *exactly*

A) 0.5%.

B) 5%.

C) 0%.

D) -5%.

E) none of the above is correct.

11. Modern U.S. monetary policy is best described as:   
A) aimed at keeping inflation low and stable and growth high and stable  
B) determining the denominations of a country's currency  
C) one of the most important functions of Congress  
D) attempting to keep inflation constant at zero percent

12. In the United States, the economic agents that are the biggest issuers of securities (in terms of $ value) are

A)households.

B)governments.

C)business firms.

D)financial intermediaries.

13. An important financial institution that assists in the initial sale of securities in the primary market is the

A)stock broker.

B)commercial bank.

C)stock exchange.

D)investment bank

14.falling 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

15. The relationship between money growth and inflation across countries is:

|  |  |
| --- | --- |
| A) | negative and fairly strong |
| B) | negative and fairly weak |
| C) | positive and fairly strong |
| D) | positive and fairly weak |

16. Asymmetric information in financial markets is a potential problem usually resulting from:

A) Borrowers having more information than the lenders, and not disclosing this information

B) Lenders having more information than borrowers and not disclosing this information

C) The fact that people are basically dishonest

D) The uncertainty about Federal Reserve monetary policy

17. In the United States, loans from \_\_\_\_\_\_\_\_ are far \_\_\_\_\_\_\_\_ important for corporate finance than are securities markets.

A)government agencies; more

B)government agencies; less

C)financial intermediaries; more

D)financial intermediaries; less

18. A non-marketable security is one that

A)cannot be resold in a secondary market.

B)is not widely advertised.

C)has no maturity date.

D)has a present value of zero.

E)has only a current yield and not a capital gain or loss.

19. A professional baseball player may be contractually prohibited from skiing. The team owner includes this clause

in the player’s contract to protect against

A)fraud

B)moral hazard

C)adverse selection

D)risk sharing

20. Which of the following can be described as indirect finance?

A) Your parents lend you the money for tuition.

B) You borrow $2500 from a friend.

C) You buy car insurance.

D)Google buys shares of commercial paper from Microsoft.

21. Which of the following do not provide charters to operate depository institutions?

A) The Office of the Comptroller of the Currency

B) The Federal Reserve System

C) The National Credit Union Administration

D) State banking and insurance commissions

22. The primary purpose of deposit insurance is to

A)improve the flow of information to investors.

B)protect the banking system.

C)protect bank shareholders against losses.

D)protectdepositors against losses

E)bank employees from unemployment.

23. Purchasing financial instruments in today's economy versus purchasing financial instruments 30 years ago:   
A) is an activity still practiced only by the wealthy.  
B) involves costly transactions.  
C) requires a relatively large sum of money (more than $100,000).  
D) is made easier by the use of innovations such as mutual funds.

24. If an individual goes to a bank and receives a $500 loan which the bank deposits electronically in your checking

account, then

A) M1 stays the same and M2 decreases.

B) M1 increases and M2 stays the same.

C) M1 increases and M2 increases.

D) M1 stays the same and M2 stays the same.

E) M1 increases and M2 decreases.

25. Suppose your bank lowers the minimum balance requirement on checking accounts by $500. As A result you

withdraw $500 from your regular checking account to take with you on your summer trip to Las Vegas.

What are the net effects on M1 and M2?

A) M1 falls by $500 and M2 rises by $500.

B) M1 is unchanged and M2 is unchanged.

C) M1 falls by $500 and M2 is unchanged.

D) M1 is unchanged and M2 rises by $500.

26. If a corporation uses money from a demand deposit account to purchase a negotiable CD,

A) M1 decreases and M2 stays the same.

B) M1 stays the same and M2 increases.

C) M1 stays the same and M2 stays the same.

D) M1 decreases and M2 decreases.

27. The use of money makes us more efficient because:   
A) We spend more time trading and more time producing  
B) Money increases in value over time

C) With money we borrow less  
D) People can specialize in what they do well

1. 28. During periods of rapidly rising prices the function of money that is most affected is:

A)the speculative function.

1. B)the unit of account function.
2. C)the medium of exchange function.

D)the store of value function.

1. 29. In explaining the evolution of money, which if the following provides the most logical explanation?

A) Government regulation.

B) Commodity money, because it is valued more highly, tends to drive out paper money.

C) New forms of money evolve to lower transaction costs.

D) All of the above are true.

1. 30. People hold money even during inflationary episodes when other assets prove to be better stores of value. This
2. can be explained by the fact that money is
3. A) extremely liquid.
4. B) a unique good for which there are no substitutes.
5. C) the only thing accepted in economic exchange.
6. D) backed by gold.

31. The primary means by which the Federal Reserve creates money is by

A) electronically adjusting account balances in its computer system.

B) giving the printed bills directly to commercial banks for distribution.

C) printing bills and distributing them through the Federal Reserve District Banks.

D) spending money on government purchases.

32. Which of the following is not a form of e-money?

A)a debit card

B)a credit card

C)a stored-value card

D)a smart card

**Part II: Short Answer& Problems—Show work for full credit on problems.**

1. Explain the differences in the financial asset configurations between life insurance companies, casualty insurance

companies, and money market mutual funds. (6 points)

2. For each of the following financial transactions, indicate whether it involves direct finance or indirect finance by

writing a D or I for each item. (4 points)

*i*. You take out a car loan from a finance company.

*ii.* You buy a U.S. savings bond.

*iii*. You buy a share of a mutual fund.

*iv*. You borrow a $500 from you parents.

*v.* You obtain a $50,000 mortgage from your local S&L.

*vi*. You buy a life insurance policy.

*vii.* GM sells a share of its stock to IBM.

*viii*. AT&T issues commercial paper to Mobil Oil Corp.

*ix.* You buy a share of GM stock from your broker.

*x*. You accept your buddies IOU in a poker game.

3. Categorize the following transactions by each of the following criteria: (5 Points)

1. Categorize each transaction as a primary or secondary market transaction.
2. Categorize each transaction as a money or capital market transaction.
3. A bank makes a 30-year mortgage loan for a new house.
4. The Biederman-Blackwell Money Market Mutual Fund buys $1.5 million worth of 3-month Treasury bills in the U.S. government’s weekly auction.
5. The Biederman-Blackwell Money Market Mutual Fund buys $150,000 worth of 3-month Treasury bills from Alerus Financial.
6. The bank in part I sells the mortgage loan to a government sponsored financial intermediary
7. The Owens’ Black Jack Corporation opens for business by selling shares of stock to his students (which they must buy to pass ECON 303).

4. The following table contains the CPI and the Federal Minimum hourly wage rates. (6 points)

YEAR CPI Hourly Min. wage

1945 18.0 $0.40

1955 26.8 0.75

1965 31.5 1.25

1975 53.8 2.10

1980 82.4 3.10

1985 107.6 3.35

1990 130.7 3.80

1995 152.4 4.25

2000 172.2 5.15

2005 195.3 5.15

2014 237.1 7.25

1. Convert each nominal minimum wage into base year dollars and rank them (by year) from lowest to highest real wage.
2. Determine how much the current minimum wage must be to equal the purchasing power of the highest real minimum wage on the list.