

**Question No: 1 ( Marks: 1 ) - Please choose one**

Which of the following are without maturity dates?

- ▶ Zero coupon bonds
- ▶ Coupon securities
- ▶ **Consols**
- ▶ Preferred Bonds

**Question No: 2 ( Marks: 1 ) - Please choose one**

Which of the following institution takes direct deposit from customer and gives loan to customer directly?

- ▶ Zarai Tarkaytee Bank LTD
- ▶ Soneri Bank
- ▶ Khushali Bank
- ▶ **Credit union**

**Question No: 3 ( Marks: 1 ) - Please choose one**

Mr. Ghazanfar obtains a home improvement loan from Allied Bank. This loan is:

- ▶ Mr. Ghazanfar's asset and the bank's liability
- ▶ Mr. Ghazanfar's asset, but the liability belongs to the bank's depositors
- ▶ **Mr. Ghazanfar's liability and an asset for the bank**
- ▶ Both Mr. Ghazanfar's and bank's liability

**Question No: 4 ( Marks: 1 ) - Please choose one**

Components of M<sub>1</sub> **DO NOT** include which one of the following?

- ▶ Currency in the hands of public
- ▶ Demand deposits
- ▶ **Small denominations time deposit**
- ▶ Checkable deposits

**Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following has created an opportunity for small investors to participate in economic activity?

- ▶ **Mutual funds**
- ▶ Small corporations
- ▶ Stock brokers
- ▶ Small investors cannot take part in economic activity

**Question No: 6 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** an example of financial institutions?

- ▶ Bank
- ▶ Securities firm
- ▶ **Stock exchange**
- ▶ Insurance company

**Question No: 7 ( Marks: 1 ) - Please choose one**

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

- ▶ Free-riding
- ▶ **Moral hazard**
- ▶ Adverse selection
- ▶ The Lemons market

**Question No: 8 ( Marks: 1 ) - Please choose one**

In a financial market where information is symmetric:

- ▶ **The same information would be known by both parties in a transaction**
- ▶ One party to a transaction knows information the other party does not
- ▶ The ability to obtain information is available to only one party
- ▶ All of the given options

**Question No: 9 ( Marks: 1 ) - Please choose one**

When stock prices reflect fundamental values:

- ▶ All investors will experience capital gains
- ▶ All companies will have an easier task of obtaining financing for investment projects
- ▶ **The allocation of resources will be more efficient**
- ▶ The overall level of the stock market should move higher continuously

**Question No: 10 ( Marks: 1 ) - Please choose one**

An index number is a valuable tool because:

- ▶ The number by itself provides all of the useful information needed
- ▶ **The index provides a meaningful measurement scale to calculate percentage changes**
- ▶ The index is more stable than the data it reflects
- ▶ It does not require any calculations to compute percentage changes

**Question No: 11 ( Marks: 1 ) - Please choose one**

The concept of limited liability says a **stockholder** of a corporation:

- ▶ Is liable for the corporation's liabilities, but nothing more
- ▶ Cannot receive dividends that exceed their investment
- ▶ Cannot own more than five percent of any public corporation
- ▶ **Cannot lose more than their investment**

**Question No: 12 ( Marks: 1 ) - Please choose one**

Other things remaining equal, the liquidity premium theory is based upon the idea that

- ▶ Investors prefer long-term bonds
- ▶ **Investors prefer short-term bonds**
- ▶ Investors are indifferent between short-term and long-term bonds
- ▶ Investors prefer intermediate-term bonds

**Question No: 13 ( Marks: 1 ) - Please choose one**

Which one of the following is **NOT** true for the expectation hypothesis?

- ▶ Risk free interest rate can be computed
- ▶ There is uncertainty in the future
- ▶ Identifying yield of bond today that will be available next year
- ▶ **It focuses on risk free interest rate and the risk premium**

**Question No: 14 ( Marks: 1 ) - Please choose one**

A graph of the term structure with YTM on Y-axis and time to maturity on X-axis is called:

- ▶ Demand curve
- ▶ Supply curve
- ▶ **Yield curve**
- ▶ Leffer curve

**Question No: 15 ( Marks: 1 ) - Please choose one**

	Bond A	Bond B
<b>Maturity</b>	5 years	10 years
<b>Default risk</b>	5%	5%
<b>Tax rate</b>	30%	30%
<b>Yield</b>	?	?

See the above table and choose the one option which is **NOT** correct about the yield of Bond A and Bond B?

▶ **Bond tax status and default rate are not the only factors that affect the yield of the two bonds**

▶ Bond A has different yield from that of Bond B because of change in maturity period

▶ Yields of both the bonds are not disturbed by maturity period

▶ Yield of Bond B depends on what people expect to happen in years to come

**Question No: 16 ( Marks: 1 ) - Please choose one**

The \_\_\_\_\_ are an assessment of the creditworthiness of the corporate issuer.

- ▶ Bond yield
- ▶ **Bond ratings**
- ▶ Bond risk
- ▶ Bond price

**Question No: 17 ( Marks: 1 ) - Please choose one**

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The bond rating of a security refers to which of the followings?

- ▶ The size of the coupon payment relative to the face value
- ▶ The return a holder is likely to receive
- ▶ **The likelihood the lender/borrower will be repaid by the borrower/issuer**
- ▶ The years until the bond matures

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**Question No: 18 ( Marks: 1 ) - Please choose one**

An increase in the expected inflation shifts the bond demand to the \_\_\_\_\_

- ▶ **Right**
- ▶ Left
- ▶ No change
- ▶ None of the given options

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**Question No: 19 ( Marks: 1 ) - Please choose one**

The current yield on a \$10,000, 5% coupon bond selling for \$8,000 is:

- ▶ **6.25%**
- ▶ 7.50%
- ▶ 8.00%
- ▶ 5.00%

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**Question No: 20 ( Marks: 1 ) - Please choose one**

If the annual interest rate is 6% (.06); the price of a one year Treasury bill would be:

- ▶ \$94.00
- ▶ **\$94.33**
- ▶ \$95.25
- ▶ \$96.10

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**Question No: 21 ( Marks: 1 ) - Please choose one**

The return on holding a bond till its maturity is called:

- ▶ Coupon rate
- ▶ **Yield to maturity**
- ▶ Current yield
- ▶ Fixed return

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**Question No: 22 ( Marks: 1 ) - Please choose one**

Which of the following best describes the relationship between Bond prices and yields?

- ▶ Move together directly
- ▶ Independent of each other
- ▶ **Move together inversely**
- ▶ Bond yields do not change since the coupon is fixed

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**Question No: 23 ( Marks: 1 ) - Please choose one**

Mr. A has a Treasury bill with a maturity period of 6 months where as Mr. B has a bond with a maturity period of 1 year. Which of the following statement is **NOT** true for this situation?

- ▶ Mr. A has paid less price for his bond than Mr. B

- ▶ **Mr. A and Mr. B is a holder of zero coupon bond**
- ▶ Mr. A will receive payment at the end of the maturity period
- ▶ Mr. B will receive the payment at the end of the maturity period

**Question No: 24 ( Marks: 1 ) - Please choose one**

What is true relationship between return and risk?

- ▶ Lower the risk greater the return
- ▶ **Greater the risk greater the return**
- ▶ Greater the risk no change in return
- ▶ No relationship between them

**Question No: 25 ( Marks: 1 ) - Please choose one**

Sum of all the probabilities should be equal to which one of the following?

- ▶ Zero
- ▶ **One**
- ▶ Two
- ▶ Three

**Question No: 26 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ measures the probability of worst outcome in any investment project.

- ▶ Variance
- ▶ Standard deviation
- ▶ **Value at risk**
- ▶ Hedging

**Question No: 27 ( Marks: 1 ) - Please choose one**

The variance is generally less useful than the standard deviation on which of the following reasons?

- ▶ Variance is easier to calculate
- ▶ Variance is a measure of risk, whereas standard deviation is a measure of return
- ▶ **Variance isn't calculated in the same units as payoffs where as standard deviation is**
- ▶ Both are equally useful

**Question No: 28 ( Marks: 1 ) - Please choose one**

A credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called:

- ▶ Simple loan
- ▶ Fixed-payment loan
- ▶ **Coupon bond**
- ▶ Discount bond

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following provides the greatest incentive to borrow?

- ▶ A high real interest rate
- ▶ **A low real interest rate**

- ▶ A high nominal interest rate
- ▶ A low nominal interest rate

**Question No: 30 ( Marks: 1 ) - Please choose one**

An investment carrying a current cost of \$130,000 is going to generate \$70,000 of revenue for each of the next three years. To calculate the internal rate of return we need to:

- ▶ Calculate the present value of each of the \$70,000 payments and multiply these and set this equal to \$130,000
- ▶ Take the present value of \$210,000 for three years from now and set this equal to \$130,000
- ▶ **Set the sum of the present value of \$70,000 for each of the next three years equal to \$130,000**
- ▶ Subtract \$130,000 from \$210,000 and set this difference equal to the interest rate

**Question No: 31 ( Marks: 1 ) - Please choose one**

A borrower is promised a \$100 payment (including interest) one year from today. If the lender has an 8% opportunity cost of money, he should be willing to accept what amount today?

- ▶ Rs.100.00
- ▶ Rs.108.20
- ▶ **Rs.92.59**
- ▶ Rs.96.40

**Question No: 32 ( Marks: 1 ) - Please choose one**

Which one of the following is NOT an example of Centralized exchange?

- ▶ New York Stock Exchange
- ▶ NASDAQ
- ▶ **Large exchanges in London**
- ▶ Large exchanges in Tokyo

**Question No: 33 ( Marks: 1 ) - Please choose one**

Financial intermediaries provide small lender-savers all of the following advantages

**EXCEPT:**

- ▶ **Greater liquidity**
- ▶ Lower transaction cost
- ▶ Lower risk
- ▶ Higher return

**Question No: 34 ( Marks: 1 ) - Please choose one**

The shares of McDonald Corporation stock are examples of:

- ▶ **A standardized financial instrument**
- ▶ A standardized financial liability instrument
- ▶ A non-standardized financial instrument
- ▶ A means of payment

**Question No: 35 ( Marks: 1 ) - Please choose one**

Which of the following statements is **NOT** correct?

- ▶ **Banks are financial intermediaries**
- ▶ Financial intermediary involves in giving loan and accepting deposit
- ▶ All financial intermediaries are insurance companies
- ▶ Financial intermediaries increase the efficiency of the economy

**Question No: 36 ( Marks: 1 ) - Please choose one**

Economic research shows:

- ▶ There is a strong inverse correlation between financial market development and economic growth
- ▶ There is weak relation between financial market development and economic growth around 0.25
- ▶ **There is a relatively strong positive correlation between financial market development and economic growth**
- ▶ There isn't any correlation between financial market development and economic growth

**Question No: 37 ( Marks: 1 ) - Please choose one**

Which of the following statements is correct?

- ▶ If you can buy the same goods this year as you bought last year with less money the money supply decreased.
- ▶ **To purchase the same goods today that were purchased one year ago requires more money, there must have been inflation**
- ▶ To purchase the same goods today as one year ago requires less money, the money supply must have increased
- ▶ To purchase the same goods today that were purchased one year ago requires the same amount of money, there must have been inflation

**Question No: 38 ( Marks: 1 ) - Please choose one**

The one that you get from bank when you open your checking account is\_\_\_\_\_.

- ▶ **Debit card**
- ▶ Credit card
- ▶ Store value card
- ▶ Customer card

**Question No: 39 ( Marks: 1 ) - Please choose one**

Wealth can be held in number of other forms but we use to hold money because of which one of the following reason?

- ▶ It is the only mode of payment
- ▶ It is an asset
- ▶ **It is most liquid**
- ▶ It is the only store of value

**Question No: 40 ( Marks: 1 ) - Please choose one**

Which of the following are used to monitor and stabilize the economy?

- ▶ Stock exchanges
- ▶ Commercial Banks
- ▶ **Central Banks**
- ▶ Financial institutions

**Question No: 1 ( Marks: 1 ) - Please choose one**

Stock exchange is an example of:

- ▶ Financial companies
- ▶ Financial institution
- ▶ **Financial market**
- ▶ Bank

**Question No: 2 ( Marks: 1 ) - Please choose one**

In electronic transfer the most common method is to send money through a system maintained by Federal reserve called\_\_\_\_\_.

- ▶ Fedex
- ▶ **Fedwire**
- ▶ Fedtransfer
- ▶ Fedmoney

**Question No: 3 ( Marks: 1 ) - Please choose one**

Financial markets enable the transfer of risk by:

- ▶ Not allowing risk averse investors access to U.S. Treasury bond markets
- ▶ Making sure that higher default risk is offset by greater liquidity
- ▶ **Allowing firms less willing to bear risk to transfer risk to others who are more willing to bear risk**
- ▶ Enabling even unsophisticated investors to purchase highly complex investment



**Question No: 4 ( Marks: 1 ) - Please choose one**

Risk sharing is the characteristic of which one of the following?

- ▶ Checks
- ▶ Checking accounts
- ▶ Money
- ▶ Bonds

**Question No: 5 ( Marks: 1 ) - Please choose one**

Suppose there are two investments, A and B, investment A has low standard deviation where as investment B has high standard deviation. What would you think that most people will choose?

- ▶ Investment A
- ▶ Investment B
- ▶ Indifference between them
- ▶ Insufficient information to decide

**Question No: 6 ( Marks: 1 ) - Please choose one**

If the annual interest rate is 6% (.06); the price of a one year Treasury bill would be:

- ▶ \$94.00
- ▶ \$94.33
- ▶ \$95.25
- ▶ \$96.10

**Question No: 7 ( Marks: 1 ) - Please choose one**

If YTM equals the coupon rate the price of the bond is\_\_\_\_\_.

- ▶ Greater than its face value
- ▶ Lower than its face value
- ▶ Equals to its face value

- ▶ Insufficient information is given

**Question No: 8 ( Marks: 1 ) - Please choose one**

The return on the bond is equal to which of the following?

- ▶ Coupon rate + rate of capital gains
- ▶ Current yield + rate of capital gains
- ▶ Coupon rate - rate of capital gains
- ▶ Current yield - rate of capital gains

**Question No: 9 ( Marks: 1 ) - Please choose one**

An increase in the expected inflation shifts the bond supply to the \_\_\_\_\_

- ▶ Right
- ▶ Left
- ▶ No change
- ▶ None of the given options

**Question No: 10 ( Marks: 1 ) - Please choose one**

Which of the following ratings shows "Highest quality and credit worthiness"?

- ▶ AAA
- ▶ AA
- ▶ BB
- ▶ A

**Question No: 11 ( Marks: 1 ) - Please choose one**

Which of the following patterns of term structure occur most frequently?

- ▶ Ascending yield curve
- ▶ Descending yield curve
- ▶ Flat yield curve
- ▶ Humped yield curve

**Question No: 12 ( Marks: 1 ) - Please choose one**

Which one of the following is **NOT** true for the expectation hypothesis?

- ▶ Risk free interest rate can be computed
- ▶ There is uncertainty in the future
- ▶ Identifying yield of bond today that will be available next year
- ▶ It focuses on risk free interest rate and the risk premium

**Question No: 13 ( Marks: 1 ) - Please choose one**

According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects

- ▶ Short-term interest rates to rise sharply
- ▶ Short-term interest rates to stay near their current levels
- ▶ Short-term interest rates to drop sharply
- ▶ Short-term interest rates does not change

**Question No: 14 ( Marks: 1 ) - Please choose one**

The Segmented Markets Theory of term structure suggests that:

- ▶ Investors have strong preferences for bonds of a particular maturity
- ▶ Investors have no preference for short-term bonds over long-term bonds, or vice versa
- ▶ Interest rates on long-term bonds strongly influence the demand for short-term bonds
- ▶ Bonds of different maturities are perfect substitutes for each other

**Question No: 15 ( Marks: 1 ) - Please choose one**

Funds of depository institution are primarily used in which of the following?

- ▶ Corporate bonds, Government bonds, Stocks, Mortgage
- ▶ **Cash, Loan, Securities**
- ▶ Stocks, Government bonds, corporate bonds, commercial papers
- ▶ Commercial papers, Bonds

**Question No: 16 ( Marks: 1 ) - Please choose one**

Which one of the following refers to the risk assessment and loss reimbursement guarantee by the individual risk experts of the relevant field?

- ▶ **Underwriting process**
- ▶ Insurance process
- ▶ Research process
- ▶ None of the given options

**Question No: 17 ( Marks: 1 ) - Please choose one**

Regulators of credit unions are which of the following?

- ▶ Office of thrift Supervision
- ▶ **State authorities**
- ▶ National Credit Union Administration
- ▶ Federal Reserve System

**Question No: 18 ( Marks: 1 ) - Please choose one**

Central banks perform all of the following functions **EXCEPT**:

- ▶ Issue currency
- ▶ Operate a payments system
- ▶ Control the availability of money and credit
- ▶ Manage fiscal policy

**Question No: 19 ( Marks: 1 ) - Please choose one**

One advantage a central bank has over other businesses including banks is that \_\_\_\_\_.

- ▶ It receives all of its funding from the government
- ▶ It doesn't have stockholders
- ▶ It can control its balance sheet at its own will
- ▶ It doesn't have a board of directors

**Question No: 20 ( Marks: 1 ) - Please choose one**

If required reserves are expressed by RR ; the required reserve rate by  $r_D$  and deposits by D; the simple deposit expansion multiplier is expressed as:

- ▶  $r_D D$
- ▶  $(1/r_D) D$
- ▶  $1/r_D$
- ▶  $r_D$  times 10

**Question No: 21 ( Marks: 1 ) - Please choose one**

The central bank makes which type of loans?

- ▶ Primary credit
- ▶ Secondary credit
- ▶ Seasonal credit
- ▶ All of the given options

**Question No: 22 ( Marks: 1 ) - Please choose one**

According to Milton Friedman, central banks should set the money growth at:

- ▶ Constant rate
- ▶ Increasing rate
- ▶ Decreasing rate
- ▶ None of the given options

**Question No: 23 ( Marks: 1 ) - Please choose one**

The quantity of money people hold for transactions purpose depends on which of the following?

- ▶ Their nominal income
- ▶ The cost of holding money
- ▶ The availability of substitutes
- ▶ All of the given options

**Question No: 24 ( Marks: 1 ) - Please choose one**

Interest rate risk arises as a result of which one of the following consequences?

- ▶ It arises when banks make additional profit by using derivatives
- ▶ It arises when loan is not repaid

- ▶ It arises because of sudden demands of funds
- ▶ It arises when two sides of the balance sheet do not match up

**Question No: 25 ( Marks: 1 ) - Please choose one**

Bank-X's outstanding loans all have fixed interest rates, with maturities in excess of two years. Bank-X's deposit liabilities all have shorter maturity-no more than six months. Bank-X most obviously is facing:

- ▶ Liquidity risk
- ▶ Operational risk
- ▶ Interest rate risk
- ▶ Credit risk

**Question No: 26 ( Marks: 1 ) - Please choose one**

One thing that is true about economic policy in the U.S. is that:

- ▶ Monetary and Fiscal policy often times conflict
- ▶ Fiscal and monetary policy never conflict
- ▶ Monetary policy ultimately controls fiscal policy
- ▶ Fiscal policy ultimately controls monetary policy

**Question No: 27 ( Marks: 1 ) - Please choose one**

Which of the following type/s of transaction/s affect the balance sheets of both the central bank and the banking system?

- ▶ An open market operation
- ▶ Central bank's extension of a discount loan
- ▶ All of the given options
- ▶ A foreign exchange intervention

**Question No: 28 ( Marks: 1 ) - Please choose one**

The use of lagged reserve accounting usually makes the demand for reserves:

- ▶ Highly unpredictable to the point of volatility
- ▶ Nearly constant with hardly any change at all
- ▶ **Predictable**
- ▶ Subject to daily changes by the Fed

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**Question No: 29 ( Marks: 1 ) - Please choose one**

The portfolio demand for money reflects which of the following?

- ▶ The money we hold for our everyday transactions
- ▶ The money we hold to purchase stocks and bonds and other financial securities
- ▶ The portion of wealth people desire to hold in the form of money
- ▶ **None of the given option**

**Question No: 30 ( Marks: 1 ) - Please choose one**

The FOMC targets the federal funds rate, but if they are going to alter the course of the economy they must influence which one of the following?

- ▶ The money growth rate as well
- ▶ The long-term nominal interest rate as well
- ▶ **The real interest rate as well**
- ▶ The nominal exchange rate as well

**Question No: 31 ( Marks: 1 ) - Please choose one**

Which one of the following statement is true for investment if all other factors are held constant?

- ▶ An investment with less risk should sell for a lower price and offer a lower return



- ▶ An investment with more risk should sell for a lower price and offer a higher return
- ▶ An investment with less risk should sell for a lower price and offer a higher return
- ▶ An investment with more risk should offer a lower return and sell for a higher price

**Question No: 32 ( Marks: 1 ) - Please choose one**

Which of the following are without maturity dates?

- ▶ Zero coupon bonds
- ▶ Coupon securities
- ▶ Consols
- ▶ Preferred Bonds

**Question No: 33 ( Marks: 1 ) - Please choose one**

Banking is a combination of businesses designed \_\_\_\_\_.

- ▶ To deliver Services
- ▶ To pool the savings
- ▶ To make the loans
- ▶ All of the given options

**Question No: 34 ( Marks: 1 ) - Please choose one**

Well run banks have \_\_\_\_\_.

- ▶ High interest income
- ▶ High interest margin
- ▶ High interest income and high interest margin
- ▶ Low interest income and low interest margin

**Question No: 35 ( Marks: 1 ) - Please choose one**

If a customer makes a withdrawal of \$3 million, from where the bank will deduct this withdrawal?

- ▶ From capital
- ▶ From cash at hand
- ▶ From reserves
- ▶ Other assets

**Question No: 36 ( Marks: 1 ) - Please choose one**

Why banks do not like to meet their deposit outflows by contracting the asset side of the balance sheet.

- ▶ Because it will shrink the size of the bank
- ▶ Because it will shrink the size of the total assets
- ▶ Because it will increase the liabilities of the bank
- ▶ None of the given options

**Question No: 37 ( Marks: 1 ) - Please choose one**

Which of the following technique is necessary for making profit in a bank?

- ▶ Interest rate on liabilities must be lower
- ▶ Interest rate on deposits must be higher
- ▶ Interest rate on deposits must be higher than the interest rate on the liabilities

- ▶ Interest rate on deposits must be lower than the interest rate on the liabilities

**Question No: 38 ( Marks: 1 ) - Please choose one**

What is the impact of growth of international banking?

- ▶ It increase the competition in the banking market
- ▶ It increase the efficiency of banking market
- ▶ Profits are harder to come as borrowers and depositors have more options
- ▶ All of the given options

**Question No: 39 ( Marks: 1 ) - Please choose one**

Managing\_\_\_\_\_is a major concern for today's banks.

- ▶ Trading risk
- ▶ Interest rate risk
- ▶ Systematic risk
- ▶ Other risk

**Question No: 40 ( Marks: 1 ) - Please choose one**

Which of the following provides a payment to the policyholder's beneficiaries in the event of the insured's death at any time during the policy term?

- ▶ Life insurance
- ▶ Term life insurance

- ▶ Whole life insurance
- ▶ Causality insurance

**Question No: 41 ( Marks: 1 ) - Please choose one**

Which of the following is included in the government-sponsored enterprise?

- ▶ Small and Medium Enterprise (SME)
- ▶ House Building Finance Corporation (HBFC)
- ▶ Khushhali Bank
- ▶ All of the given options

**Question No: 42 ( Marks: 1 ) - Please choose one**

Which of the following are the primary uses of funds of Finance Company?

- ▶ Cash, loans, securities
- ▶ Corporate bonds, government bonds
- ▶ Commercial paper, bonds, mortgages
- ▶ Bonds, bank loans, commercial paper

**Question No: 43 ( Marks: 1 ) - Please choose one**

Which of the following situation in a central bank can wreak havoc on the economic and financial system of a country?

- ▶ Weak fiscal policy
- ▶ Extreme political pressure
- ▶ Incompetence of the central banks

- ▶ Extreme political pressure and incompetence of the central banks

**Question No: 44 ( Marks: 1 ) - Please choose one**

Which function was the Central Bank originally designed to perform?

- ▶ Control the money supply
- ▶ Clearing checks
- ▶ Acting as lender of last resort
- ▶ All of the above

**Question No: 45 ( Marks: 1 ) - Please choose one**

Which of the following are costs of high and/or unexpected inflation?

- ▶ Increased uncertainty
- ▶ Higher nominal interest rates
- ▶ Hurts net creditors
- ▶ All of the above

**Question No: 46 ( Marks: 1 ) - Please choose one**

Which of the following side of a balance sheet represent that central bank is a government's bank?

- ▶ Asset side of the balance sheet
- ▶ Liabilities side of the balance sheet
- ▶ Equity side of the balance sheet

- ▶ The whole balance sheet

**Question No: 47 ( Marks: 1 ) - Please choose one**

The legal requirement of reserve of a bank is called\_\_\_\_\_.

- ▶ Actual reserve
- ▶ Required reserve
- ▶ Excess reserve
- ▶ None of the given option

**Question No: 48 ( Marks: 1 ) - Please choose one**

If a bank holds excess reserve it depends upon which of the following?

- ▶ Cost of holding the excess reserve
- ▶ Benefit of holding excess reserve
- ▶ Duration of holding excess reserve
- ▶ Cost and benefit of holding excess reserve

**Question No: 49 ( Marks: 1 ) - Please choose one**

The number of times each rupee is used (per unit of time) in making payments is called the\_\_\_\_\_.

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- ▶ Velocity of money

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- ▶ Quantity of money
- ▶ Exchange of money
- ▶ Aggregate money

**Question No: 50 ( Marks: 1 ) - Please choose one**

Portfolio demand for money goes up as the riskiness of the alternative \_\_\_\_\_

- ▶ Falls
- ▶ Rises
- ▶ Remain stable
- ▶ Cannot be determined

**Question No: 51 ( Marks: 1 ) - Please choose one**

Monetary policy makers react to changes in current inflation by changing the \_\_\_\_\_

- ▶ Effective interest rate
- ▶ None of the given options
- ▶ Real interest rate
- ▶ Nominal interest rate

**Question No: 52 ( Marks: 1 ) - Please choose one**

With a higher inflation target, the central bank will set a lower current \_\_\_\_\_ at every level of current inflation, shifting the monetary policy reaction curve to the right.

- ▶ Real interest rate

- ▶ Nominal interest rate
- ▶ Effective interest rate
- ▶ None of the given options

**Question No: 53 ( Marks: 1 ) - Please choose one**

Who set the relationship between current inflation and real interest rate?

- ▶ Monetary policy makers
- ▶ Fiscal policy makers
- ▶ Budget makers
- ▶ Monetary policy maker or fiscal policy maker

**Question No: 54 ( Marks: 1 ) - Please choose one**

Inflation falls and output rises until the economy returns to the point where current output \_\_\_\_\_ potential output and inflation equals the central bank's target.

- ▶ Equals
- ▶ Greater than
- ▶ Lower than
- ▶ Incomplete information

**Fall 2009**  
**MGT411- Money & Banking (Session - 2)**

**Time: 120 min**  
**Marks: 87**

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**Question No: 1 ( Marks: 1 ) - Please choose one**

Core principles of Money and Banking include each of the following **Except?**

- ▶ **All people act rationally**
- ▶ Time has value
- ▶ Information is the basis for decisions
- ▶ Risk requires compensation

**Question No: 2 ( Marks: 1 ) - Please choose one**

Which of the following is the final mode of payment?

- ▶ **Money**
- ▶ ATM
- ▶ Cheque
- ▶ Yet to discover

**Question No: 3 ( Marks: 1 ) - Please choose one**

The one that you get from bank when you open your checking account is

- ▶ **Debit card**
- ▶ Credit card
- ▶ Store value card
- ▶ Customer card

**Question No: 4 ( Marks: 1 ) - Please choose one**

A Financial Intermediary:

- ▶ Is an agency that guarantees a loan
- ▶ Is involved in direct finance
- ▶ **Would be used in indirect finance**
- ▶ None of the given options

**Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** a financial instrument?

- ▶ A share of General Motors stock
- ▶ **A tuition bill**
- ▶ A U.S. Treasury bond
- ▶ A home insurance policy

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**Question No: 6 ( Marks: 1 ) - Please choose one**

Which of the following is true for direct finance?

- ▶ Individuals (or firms) borrow directly from banks
- ▶ Individuals deposit savings directly in banks
- ▶ Firms deposit savings directly in banks
- ▶ **Individuals (or firms) borrow directly from the savers**

**Question No: 7 ( Marks: 1 ) - Please choose one**

If you put \$1,000 per year into bank at 4% interest, how much would you have saved after 40 years?

- ▶ \$90,000
- ▶ \$98,826
- ▶ **\$82,286**
- ▶ \$85,880

**Question No: 8 ( Marks: 1 ) - Please choose one**

If an investment will return \$1000 ½ of the time and \$600 ½ of the time, the expected value of the investment is:

- ▶ \$1,600
- ▶ **\$800**
- ▶ \$400
- ▶ \$900

**Question No: 9 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ is the strategy of reducing overall risk by making two investments with opposing risks.

- ▶ Spreading the risk
- ▶ Standard deviation
- ▶ **Hedging the risk**
- ▶ Variance

**Question No: 10 ( Marks: 1 ) - Please choose one**

For a \$1000 one year discount bond with a price of \$975, the yield to maturity is which of the following?

- ▶ \$975/\$1000
- ▶  **$(\$1000 - \$975)/\$975$**
- ▶  $(\$1000 - \$975)/(\$1000)$
- ▶ \$1000/\$975

**Question No: 11 ( Marks: 1 ) - Please choose one**

If YTM is less than the coupon rate the price of the bond is \_\_\_\_\_.

- ▶ **Greater than its face value**
- ▶ Lower than its face value
- ▶ Equals to its face value
- ▶ Insufficient information is given

**Question No: 12 ( Marks: 1 ) - Please choose one**

Term structure of interest rate can be explained by which one of the following?

- ▶ Tax difference
- ▶ Expectation hypothesis
- ▶ Liquidity premium theory
- ▶ **Both by expectation hypothesis and liquidity premium theory**

**Question No: 13 ( Marks: 1 ) - Please choose one**

The shape of the yield curve is usually:

- ▶ **Upward sloping**
- ▶ Downward sloping
- ▶ Upward sloping for shorter maturities and downward sloping for longer maturities
- ▶ Flat

**Question No: 14 ( Marks: 1 ) - Please choose one**

An index number is a valuable tool because:

- ▶ The number by itself provides all of the useful information needed
- ▶ **The index provides a meaningful measurement scale to calculate percentage changes**
- ▶ The index is more stable than the data it reflects
- ▶ It does not require any calculations to compute percentage changes

**Question No: 15 ( Marks: 1 ) - Please choose one**

Stock market bubbles can lead to:

- ▶ An inefficient allocation of resources
- ▶ **Stock market crashes**
- ▶ Patterns of volatile returns from the stock market
- ▶ All of the given options

**Question No: 16 ( Marks: 1 ) - Please choose one**

The difference between a bank's reserves and their required reserves is equal to which of the following?

- ▶ Equity
- ▶ **Excess reserves**
- ▶ Net interest income
- ▶ None of the given options

**Question No: 17 ( Marks: 1 ) - Please choose one**

Which one of the following is a way for a bank to deal with credit risk?

- ▶ **Add a mark-up to the cost of funds for a specific borrower based on the borrower's credit history**
- ▶ Charge all borrowers from the same industry an average rate for that industry
- ▶ Avoid making loans to borrowers from a broad spectrum
- ▶ Limit the number of loans made in any year

**Question No: 18 ( Marks: 1 ) - Please choose one**

What matters most during a bank run is\_\_\_\_\_.

- ▶ **The liquidity of the bank**

- ▶ The solvency of the bank
- ▶ The number of depositors
- ▶ Safety of bank

**Question No: 19 ( Marks: 1 ) - Please choose one**

Under the purchase and assumption method of dealing with a failed bank, the FDIC\_\_\_\_\_.

- ▶ Sells the failed bank to the Federal Reserve
- ▶ **Finds another bank to take over the insolvent bank**
- ▶ Takes over the day to day management of the bank
- ▶ Sells off the profitable loans of the failed bank in an open auction

**Question No: 20 ( Marks: 1 ) - Please choose one**

Which of the following statements is incorrect ?

- ▶ The higher the deposit insurance limit the higher the risk of moral hazard
- ▶ The lower the deposit insurance limit the lower the risk of moral hazard
- ▶ **Deposit insurance limits do not impact moral hazard, they impact adverse selection**
- ▶ Increasing the deposit insurance limits above \$100,000 would increase coverage for relatively few depositors

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**Question No: 21 ( Marks: 1 ) - Please choose one**

Stable inflation implies which of the following?

- ▶ That the rate of inflation averaged over many years is zero(0)
- ▶ **That inflation is predictable**
- ▶ Low rates of unemployment
- ▶ All of the given options

**Question No: 22 ( Marks: 1 ) - Please choose one**

A bank can make new loans as long as it has:

- ▶ **Excess reserves**
- ▶ Required reserves
- ▶ Correspondent reserves
- ▶ Capital

**Question No: 23 ( Marks: 1 ) - Please choose one**

Which one of the following is extended usually overnight to sound institutions on a very short-term basis?

- ▶ **Primary credit**
- ▶ Secondary credit
- ▶ Seasonal credit
- ▶ All of the given options

**Question No: 24 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ refers to the instruments that are not directly under the control of central bank:

- ▶ Financial instruments
- ▶ **Intermediate instruments**
- ▶ Operating instruments
- ▶ All of the given options

**Question No: 25 ( Marks: 1 ) - Please choose one**

The risk of "insolvency" is basically the risk of:

- ▶ Borrowers not paying off lenders in a timely fashion
- ▶ Machinery breakdowns
- ▶ Not being able to find a buyer for an asset
- ▶ **Asset value falling below liability value**

**Question No: 26 ( Marks: 1 ) - Please choose one**

The machinery which is used by Bank for sorting and clearing checks breaks down. This is a manifestation of which of the following risk?

- ▶ Credit risk
- ▶ **Operational risk**
- ▶ Liquidity risk
- ▶ Market risk

**Question No: 27 ( Marks: 1 ) - Please choose one**

In general, if the financial institution's balance sheet displays assets and liabilities that are "mis-matched" to a significant degree, the institution faces:

- ▶ Operational risk
- ▶ Sovereign risk
- ▶ **Interest rate risk**
- ▶ Liquidity risk

**Question No: 28 ( Marks: 1 ) - Please choose one**

Everything else equal, if the growth rate of a country exceeds its sustainable rate:

- ▶ The central bank will keep interest rates low to keep the momentum
- ▶ **The central bank is likely to raise interest rates to slow the rate of growth**
- ▶ The central banks will identify the new rate as sustainable rate and try to maintain it
- ▶ The central bank is likely to lower the interest rate to offset this boom

**Question No: 29 ( Marks: 1 ) - Please choose one**

The idea that central banks should be independent of political pressure is an idea that:

- ▶ Is included in Federal Reserve Act in 1913
- ▶ **Is relatively new**

- ▶ Every central bank was founded upon
- ▶ Became quite popular in the early 1900's

**Question No: 30 ( Marks: 1 ) - Please choose one**

Which of the following type/s of transaction/s affect the balance sheets of both the central bank and the banking system?

- ▶ An open market operation
- ▶ Central bank's extension of a discount loan
- ▶ **All of the given options**
- ▶ A foreign exchange intervention

**Question No: 31 ( Marks: 1 ) - Please choose one**

Which of the following statements is most appropriate?

- ▶ **Over the last 10 years the deviations between the target and market federal funds rate have decreased**
- ▶ The market federal funds rate equals the target federal funds rate
- ▶ Over the last 10 years the deviations between the target and market federal funds rate have increased
- ▶ There doesn't appear to be any relationship at all between the target and market federal fund rates

**Question No: 32 ( Marks: 1 ) - Please choose one**

Currency-to-deposit ratio is a factor that affects the quantity of money. This factor is controlled by which of the following?

- ▶ Central bank
- ▶ Bank regulators
- ▶ Commercial banks
- ▶ **Non bank public**

**Question No: 33 ( Marks: 1 ) - Please choose one**

Which one of the following statement is true for investment if all other factors are held constant?

- ▶ An investment with less risk should sell for a lower price and offer a lower return
- ▶ **An investment with more risk should sell for a lower price and offer a higher return**
- ▶ An investment with less risk should sell for a lower price and offer a higher return
- ▶ An investment with more risk should offer a lower return and sell for a higher price

**Question No: 34 ( Marks: 1 ) - Please choose one**

An important component of bank capital is \_\_\_\_\_, an amount the bank set aside to cover potential losses from defaulted loans.

- ▶ Reserves
- ▶ **Loan loss reserves**
- ▶ Unappropriated profit
- ▶ Appropriated profit

**Question No: 35 ( Marks: 1 ) - Please choose one**

If a customer makes a withdrawal of \$3 million, from where the bank will deduct this withdrawal?

- ▶ From capital
- ▶ From cash at hand
- ▶ **From reserves**
- ▶ Other assets

**Question No: 36 ( Marks: 1 ) - Please choose one**

There are \_\_\_\_\_ type/s of life insurance.

- ▶ 1
- ▶ **2**
- ▶ 3
- ▶ 4

**Question No: 37 ( Marks: 1 ) - Please choose one**

Which of the following provides a payment to the policyholder's beneficiaries in the event of the insured's death at any time during the policy term?

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- ▶ Life insurance
- ▶ **Term life insurance**
- ▶ Whole life insurance
- ▶ Causality insurance

**Question No: 38 ( Marks: 1 ) - Please choose one**

Which of the following are the primary uses of funds of Finance Company?

- ▶ Cash, loans, securities
- ▶ Corporate bonds, government bonds
- ▶ Commercial paper, bonds, mortgages
- ▶ **Bonds, bank loans, commercial paper**

**Question No: 39 ( Marks: 1 ) - Please choose one**

Which of the following situation in a central bank can wreak havoc on the economic and financial system of a country?

- ▶ Weak fiscal policy
- ▶ Extreme political pressure
- ▶ Incompetence of the central banks
- ▶ **Extreme political pressure and incompetence of the central banks**

**Question No: 40 ( Marks: 1 ) - Please choose one**

A central bank as banker's bank performs the following role(s):

- ▶ **Provide loan during a time of financial stress**
- ▶ Manage the payment system
- ▶ Oversee commercial banks and the financial system
- ▶ All of the given options

**Question No: 41 ( Marks: 1 ) - Please choose one**

Which of the following are goals of the Central Bank?

- ▶ Low employment
- ▶ **Low, stable inflation**
- ▶ Low exchange rates
- ▶ All of the above

**Question No: 42 ( Marks: 1 ) - Please choose one**

Which of the following is represented by the income statement of a bank?

- ▶ Financial position of a bank
- ▶ Financial position of board of directors
- ▶ **Performance of a bank**
- ▶ Performance of the employees of a bank

**Question No: 43 ( Marks: 1 ) - Please choose one**

"Pooling the knowledge of a number of people yields better decisions than decision making by an individual" represent which of the following principle of central bank design?

- ▶ Independence
- ▶ **Decision making by committee**
- ▶ Accountability and transparency
- ▶ Policy framework

**Question No: 44 ( Marks: 1 ) - Please choose one**



“Policy makers must be held accountable to the public they serve and clearly communicate their objectives, decisions and methods” represent which of the following principle of central bank design?

- ▶ Decision making by committee
- ▶ **Accountability and transparency**
- ▶ Policy framework
- ▶ Independence

**Question No: 45 ( Marks: 1 ) - Please choose one**

Among the asset side of the balance sheet of a central bank which of the following item represent the function of central bank as Banker's bank?

- ▶ Currency
- ▶ Reserves
- ▶ Deposits of the Government
- ▶ **Loan to commercial bank**

**Question No: 46 ( Marks: 1 ) - Please choose one**

Monetary base and quantity of money have \_\_\_\_\_

- ▶ **Direct relation**
- ▶ Inverse relation
- ▶ No relation
- ▶ Incomplete information

**Question No: 47 ( Marks: 1 ) - Please choose one**

When the currency that people are holding loses value much rapidly, what will be the behavior of people?

- ▶ **The will spend money as quickly as possible**
- ▶ They will try to save the money for future
- ▶ They will not bother the value of money
- ▶ None of the given option

**Question No: 48 ( Marks: 1 ) - Please choose one**

The \_\_\_\_\_ tells us why high inflation and high money growth go together, and explains why countries can have money growth that is higher than inflation

- ▶ Velocity of money
- ▶ **Quantity theory of money**
- ▶ Money growth
- ▶ Velocity growth

**Question No: 49 ( Marks: 1 ) - Please choose one**

Nominal money demand raises with \_\_\_\_\_, as more income means more spending, which requires more money.

- ▶ Real income
- ▶ **Nominal income**
- ▶ Cost of holding money
- ▶ Availability of substitutes

**Question No: 50 ( Marks: 1 ) - Please choose one**

If inflation exceeds money growth keeping the velocity constant, what will be its effect on real money and aggregate demand?

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- ▶ Real money balances will rise along with the aggregate demand
- ▶ **Real money balances will fall along with the aggregate demand**
- ▶ Real money balances will rise while the aggregate demand will fall
- ▶ Real money balances will fall while the aggregate demand will rise

**Question No: 51 ( Marks: 1 ) - Please choose one**

The rate will change if one of the following components of aggregate demand that is not sensitive to the real interest rate goes up (or down) or if potential output changes.

- ▶ Consumption
- ▶ Investment
- ▶ Net exports
- ▶ **Govt. spending**

**Question No: 52 ( Marks: 1 ) - Please choose one**

Which of the following factor(s) influence the sensitivity of current output to inflation?

- ▶ The strength of the effect of inflation on real money balances
- ▶ The extent to which monetary policymakers react to a change in current inflation
- ▶ The size of the response of aggregate demand to changes in the interest rate
- ▶ **All of the given options**

**Question No: 53 ( Marks: 1 ) - Please choose one**

Which of the following is (are) the reason(s) for inflation being persistent?

- ▶ When people expect inflation in the long run they cut the prices
- ▶ When people expect inflation in the long run they raise wages and

► **When people expect inflation to continue, they adjust the prices and wages accordingly**

► When people expect inflation to continue, they cut the prices and wages accordingly

**Question No: 54 ( Marks: 1 ) - Please choose one**

If current output is lower than potential output, the resulting recessionary gap places pressure towards \_\_\_\_\_ on inflation, causing the short-run aggregate supply curve to shift downward.

- Right
- Left
- Upward

► **Downward**

**Question No: 55 ( Marks: 3 )**

Why the aggregate demand curve slopes down?

**Question No: 56 ( Marks: 5 )**

What will be the effect of following factors on bond demand curve?

- 1- Expected inflation
- 2- Expected return on stocks and other assets
- 3- Risk relative to alternatives

**Question No: 57 ( Marks: 5 )**

What is the source of a credit risk and how this risk could be managed?

**Question No: 58 ( Marks: 10 )**

a. Assume that:

Monetary Base ( MB) = \$350 billion

Required Deposit Reserve Ratio ( $r_D$ ) = 10%

Excess Reserve Ratio (ER/D) = 5%

Currency Ratio (C/D) = 25%

Calculate the total money supply (M) from this information.

b. Under the condition that the monetary base is \$350 billion but the required deposit reserve ratio ( $r_D$ ) changes from 10% to 20%, while the excess reserve

ratio (ER/D) remained at 5% and the currency ratio (C/D) remained at 25%, what is the total money supply (M) now?

c. What is the change in total money supply?

**Question No: 59 ( Marks: 10 )**

Explain in detail the tools of monetary policy in your own words.

**FINALTERM EXAMINATION**

**Fall 2009**

**MGT411- Money & Banking (Session - 3) Marks: 87**

**Question No: 1 ( Marks: 1 ) - Please choose one**

If more students didn't pay back their student loans then which of the following statement would imply?

- ▶ Student loans may become more difficult to obtain
- ▶ **The interest rate on student loans would increase**
- ▶ Fewer people may attend college
- ▶ All of the given options

**Question No: 2 ( Marks: 1 ) - Please choose one**

Price of 100 goods under the barter system would be \_\_\_\_\_.

- ▶ 5050
- ▶ 19800
- ▶ **4950**
- ▶ 20200

Under barter the general formula for n goods, we will have  $n(n - 1) / 2$  prices

**Question No: 3 ( Marks: 1 ) - Please choose one**

Recently M2 and M3 have become:

▶ A less useful measure of the relationship between the money supply and inflation

▶ **The money supply, the Federal Reserve pays the most attention to, in conducting monetary policy**

▶ Less useful than M1 due to new substitutes for standard checking account

▶ The slowest growing of all of the money aggregates

**Question No: 4 ( Marks: 1 ) - Please choose one**

Economic research shows:

- ▶ There is a strong inverse correlation between financial market development and economic growth
- ▶ There is weak relation between financial market development and economic growth around 0.25
- ▶ **There is a relatively strong positive correlation between financial market development and economic growth**
- ▶ There isn't any correlation between financial market development and economic growth

**Question No: 5 ( Marks: 1 ) - Please choose one**

Considering the value of a financial instrument, the longer the time until the promised payment is made:

- ▶ **The less valuable is the promise to make it since time is valuable**
- ▶ The greater the risk, therefore the promise has greater value
- ▶ The more valuable is the promise to make it
- ▶ It has no effect on the value of instrument

**Question No: 6 ( Marks: 1 ) - Please choose one**

Which of the following market allowed networks of dealers that are connected electronically?

- ▶ New York Stock Exchange
- ▶ **NASDAQ**
- ▶ Large exchanges in London
- ▶ Large exchanges in Tokyo

**Question No: 7 ( Marks: 1 ) - Please choose one**

Bonds that are issued by Government are called\_\_\_\_\_.

- ▶ Government bonds
- ▶ **Treasury bonds**
- ▶ Corporate bonds
- ▶ Callable bonds

**Question No: 8 ( Marks: 1 ) - Please choose one**

Asma deposits funds into a CD account at her bank. The CD account has an annual interest of 4.0%. If Asma leaves the funds in the CD account for entire two years she will have \$1081.60. What amount is Asma depositing?

- ▶ \$960.60
- ▶ \$900.00
- ▶ \$1005.00
- ▶ **\$1000.00**

**Question No: 9 ( Marks: 1 ) - Please choose one**

Which of the following investment will be profitable?

- ▶ IRR is less than cost of borrowing
- ▶ IRR is equal to cost of borrowing
- ▶ **IRR is greater than cost of borrowing**

- ▶ IRR has no connection with cost of borrowing

**Question No: 10 ( Marks: 1 ) - Please choose one**

Suppose there are two investments, A and B, investment A has low standard deviation where as investment B has high standard deviation. What would you think that most people will choose?

▶ **Investment A**

- ▶ Investment B
- ▶ Indifference between them
- ▶ Insufficient information to decide

**Question No: 11 ( Marks: 1 ) - Please choose one**

The liquidity premium theory suggests that yield curves should usually be:

▶ **Up-sloping**

- ▶ Inverted
- ▶ Flat
- ▶ Up-sloping through year 1, then flat thereafter

**Question No: 12 ( Marks: 1 ) - Please choose one**

What will the yield curve look like if future short-term interest rates are expected to rise sharply?

- ▶ **It will steeply slope upward**
- ▶ It will be horizontal
- ▶ It will slightly slope upward
- ▶ It will slope downward

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**Question No: 13 ( Marks: 1 ) - Please choose one**

The fact that a financial intermediary can use the same contract for many customers is an example of:

- ▶ Economies of Scope
- ▶ The Law of Diminishing Marginal Returns
- ▶ The Law of Increasing Opportunity Cost
- ▶ **Economies of Scale**

**Question No: 14 ( Marks: 1 ) - Please choose one**

Which of the following does not include in the bank's reserves?

- ▶ Treasury bills
- ▶ Currency in the bank
- ▶ Bank's deposits at the Federal Reserves
- ▶ **Currency in ATM machines**

Cash in ATM can not be consider as reserve as that cash can be withdrawn by any client.

Above comments from vuZs Team. You are welcome to give any other logic if you have.

**Question No: 15 ( Marks: 1 ) - Please choose one**

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\_\_\_\_\_ measures how efficiently a bank uses its assets.

- ▶ **Return on Assets**
- ▶ Return on Equity
- ▶ Bank Capital
- ▶ Bank Profitability

**Question No: 16 ( Marks: 1 ) - Please choose one**

One way for a bank to deal with liquidity risk is \_\_\_\_\_.

- ▶ **To hold sufficient excess reserves**
- ▶ To charge all borrowers from the same industry an average rate for that industry
- ▶ To avoid making loans to borrowers from a broad spectrum
- ▶ To limit the number of loans made in any year

□ One way to manage liquidity risk is to hold sufficient excess reserves (beyond the required

reserves mandated by the central bank) to accommodate customers' withdrawals.

- However, this is expensive (interest is foregone)
- Two other ways to manage liquidity risk are:
- Adjusting assets
- Adjusting liabilities

**Question No: 17 ( Marks: 1 ) - Please choose one**

Which of the following is the primary source of funds for Depository institutions?

- ▶ Short term loans
- ▶ Shares sold to customers
- ▶ **Savings and time deposits**
- ▶ Commercial papers

**Question No: 18 ( Marks: 1 ) - Please choose one**

Which one of the following refers to the risk assessment and loss reimbursement guarantee by the individual risk experts of the relevant field?

- ▶ **Underwriting process**
- ▶ Insurance process
- ▶ Research process
- ▶ None of the given options

**Question No: 19 ( Marks: 1 ) - Please choose one**

"Financial regulations restrict the assets that banks can own". Which one of the following provides the reason for that ?

- ▶ Because it limits the growth rate of banks
- ▶ **Because it combats the moral hazard that government safety nets provide**
- ▶ Because it prevents banks from being too profitable
- ▶ Because it keeps banks from spending lavishly on perks for executives

**Question No: 20 ( Marks: 1 ) - Please choose one**

An open market purchase of U.S. Treasury securities by the Fed will cause the Fed's balance sheet to show\_\_\_\_\_.

- ▶ A decrease in the asset of securities and a decrease in the liability of reserves
- ▶ A decrease in the liability of reserves
- ▶ No change in the size of balance sheet except composition of assets
- ▶ **An increase in the asset category of securities and the liability category of reserves**

**Question No: 21 ( Marks: 1 ) - Please choose one**

Identify the most appropriate statement.

- ▶ The FOMC sets the federal funds rate
- ▶ The discount rate is the primary policy tool of the FOMC
- ▶ The difference between the target and actual federal funds rate is the dealer's spread
- ▶ **The FOMC sets the target federal funds rate**

**Question No: 22 ( Marks: 1 ) - Please choose one**

Which one of the following refers to actual tools of policy instruments that the central bank controls directly?

- ▶ **Operating instruments**
- ▶ Intermediate instruments
- ▶ Financial instruments
- ▶ None of the given options

Operating instruments refer to actual tools of policy, instruments that the central bank controls

directly.

**Question No: 23 ( Marks: 1 ) - Please choose one**

Which one of the following is used primarily by small agricultural banks to help in managing the cyclical nature of farmer's loans and deposits?



- ▶ Primary credit
- ▶ Secondary credit
- ▶ **Seasonal credit**
- ▶ All of the given options

Seasonal credit is used primarily by small agricultural banks to help in managing the cyclical

nature of farmers' loans and deposits

**Question No: 24 ( Marks: 1 ) - Please choose one**

Over the long run if central banks want to avoid high rates of inflation they need to be concerned with which of the following?

- ▶ Unemployment
- ▶ **Money growth**
- ▶ Real economic growth
- ▶ Productivity of labor

Every country with high inflation has high money growth; thus to avoid sustained episodes of

high inflation, a central bank must be concerned with money growth.

**Question No: 25 ( Marks: 1 ) - Please choose one**

If  $M$  = the money supply;  $Y$  = real output,  $P$  = the price level, and  $V$  = velocity, which of the following equals the income velocity of money?

- ▶  $(P \cdot Y) + M$
- ▶  $(P \cdot M)/Y$
- ▶  $(Y \cdot M)/P$
- ▶  **$(P \cdot Y)/M$**

**Question No: 26 ( Marks: 1 ) - Please choose one**

Key assumptions behind the quantity theory of money include which of the following?

- ▶ The change in nominal GDP is zero
- ▶ Percentage change in the price level equals the percentage change in real GDP
- ▶ **The velocity of money is constant**
- ▶ The money supply is fixed

**Question No: 27 ( Marks: 1 ) - Please choose one**

Identify the correct statement.

- ▶ When the real interest rate increases the reward for saving decreases
- ▶ When the real interest rate decreases the cost of current consumption increases
- ▶ **When the real interest rate increases current consumption becomes more expensive and reward for saving increases**
- ▶ When the real interest rate increases only the reward for saving increases

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which one of the following is **NOT** true for gap analysis?

- ▶ It is the difference between the yield on interest sensitive assets and liabilities
- ▶ It is the difference in the maturity of assets and liabilities
- ▶ Banks manage credit risk by using gap analysis
- ▶ **It is a formal study of what a business is doing currently and where it wants to go in the future**

Gap analysis highlights the gap or difference between the yield on interest sensitive assets and the yield on interest-sensitive liabilities

- Multiplying the gap by the projected change in the interest rate yields the change in the bank's profit
- Gap analysis can be further refined to take account of differences in the maturity of assets and liabilities
- Banks can manage interest-rate risk by matching the interest-rate sensitivity of assets with the interest-rate sensitivity of liabilities,
- Purchase short term securities to match variable rate deposits
- Make long term loans at floating rates

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**Question No: 29 ( Marks: 1 ) - Please choose one**

Currency-to-deposit ratio is a factor that affects the quantity of money. This factor is controlled by which of the following?

- ▶ Central bank
- ▶ Bank regulators
- ▶ Commercial banks
- ▶ **Non bank public**

**Question No: 30 ( Marks: 1 ) - Please choose one**

What kind of relationship is there between rate of inflation and aggregate demand?

- ▶ Positive relationship

► **Negative relationship**

- Direct relationship
- Strong relationship

□ Because real money balances fall at higher levels of inflation, resulting in a lower level of

aggregate demand, the aggregate demand curve is downward sloping.

**Question No: 31 ( Marks: 1 ) - Please choose one**

If real interest rate increases, investment will:

- Increase
- **Decrease**
- Remain constant
- None of the given options

**Question No: 32 ( Marks: 1 ) - Please choose one**

Complete crowding-out will occur if:

- The money supply rises when Government purchases increases
- An increase in Government purchases does not change Consumption
- Taxes rise when Government purchases increases
- **An increase in Government purchases causes an equal fall in**

**Consumption, Investment, and Net Exports**

**Question No: 33 ( Marks: 1 ) - Please choose one**

The long-run supply curve is:

- Horizontal
- **Vertical**
- Downward-sloping
- Upward-sloping

**Question No: 34 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** an example of financial institutions?

- Bank
- Securities firm
- **Stock exchange**
- Insurance company

**Question No: 35 ( Marks: 1 ) - Please choose one**

Which of the following is the modern way of transferring fund or making payment?

- Paychecks system
- **Electronic fund transfer**

- ▶ Mailed transaction
- ▶ Local bank

**Question No: 36 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ evolved from coffee houses to trading places to electronic networks.

- ▶ Financial companies
- ▶ **Financial markets**
- ▶ Financial institutions
- ▶ Financial intermediaries

**Question No: 37 ( Marks: 1 ) - Please choose one**

Which of the following is the formula for calculating ROE (Return on equity)?

- ▶  $ROE = \text{Net profit before taxes} / \text{bank capital}$
- ▶  $ROE = \text{Net profit after taxes} / \text{total assets}$
- ▶  **$ROE = \text{Net profit after taxes} / \text{bank capital}$**
- ▶  $ROE = \text{Net profit before taxes} / \text{total assets}$

**Question No: 38 ( Marks: 1 ) - Please choose one**

Which of the following is related to leverage?

- ▶ **Return on assets and return on equity**
- ▶ Return on assets
- ▶ Return on equity
- ▶ None of the given options

ROA and ROE are related to leverage

□ A measure of leverage is the ratio of bank assets to bank capital. Multiplying ROA by this ratio

yields RO

**Question No: 39 ( Marks: 1 ) - Please choose one**

Which of the following technique is necessary for making profit in a bank?

- ▶ Interest rate on liabilities must be lower
- ▶ Interest rate on deposits must be higher
- ▶ Interest rate on deposits must be higher than the interest rate on the liabilities
- ▶ **Interest rate on deposits must be lower than the interest rate on the liabilities**

**Question No: 40 ( Marks: 1 ) - Please choose one**

Which of the following are the primary uses of funds of Insurance Company?

- ▶ Cash, loans, securities
- ▶ **Corporate bonds, government bonds**
- ▶ Commercial paper, bonds, mortgages
- ▶ Mortgages, consumer loans, business loans

vuZs

**Question No: 41 ( Marks: 1 ) - Please choose one**

The higher the inflation is, the less predictable it is, and the more \_\_\_\_\_ risk it creates.

- ▶ Trading
- ▶ Inflation
- ▶ **Systematic**
- ▶ Non-systematic

The higher the inflation is, the less predictable it is, and the more systematic risk it creates.

**Question No: 42 ( Marks: 1 ) - Please choose one**

Which of the following are costs of high and/or unexpected inflation?

- ▶ Increased uncertainty
- ▶ Higher nominal interest rates
- ▶ Hurts net creditors
- ▶ **All of the above**

**Question No: 43 ( Marks: 1 ) - Please choose one**

Which of the following side of a balance sheet represent that central bank is a government's bank?

- ▶ Asset side of the balance sheet
- ▶ Liabilities side of the balance sheet
- ▶ Equity side of the balance sheet
- ▶ **The whole balance sheet**

The central bank creates money and thereby controls the availability of money and credit in a country's economy

**Question No: 44 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ of a bank is a liability for the bank but that deposit creates reserves of that bank in the central bank that is asset for the bank.

- ▶ **Deposits**
- ▶ Currency
- ▶ Loan
- ▶ Security

**Question No: 45 ( Marks: 1 ) - Please choose one**

If we label the quantity of money  $M$  and the monetary base  $MB$ , the money multiplier  $m$  is defined by which of the following relationship?

- ▶  **$M = m \times MB$**
- ▶  $M = m / MB$
- ▶  $M = m - MB$
- ▶  $M = m + MB$

The money multiplier shows how the quantity of money (checking account plus currency) is related to the monetary base (reserves in the banking system plus currency held by the nonbank public) Taking  $m$  for money multiplier and  $MB$  for monetary base, the Quantity of Money,  $M$  is

$$M = m \times MB$$

**Question No: 46 ( Marks: 1 ) - Please choose one**

If a bank holds excess reserve it depends upon which of the following?

- ▶ Cost of holding the excess reserve
- ▶ Benefit of holding excess reserve
- ▶ Duration of holding excess reserve
- ▶ **Cost and benefit of holding excess reserve**

vuZs comments ( not sure)

**Question No: 47 ( Marks: 1 ) - Please choose one**

If a 45 degree line on a graph shows that average annual inflation is exactly equal to the average annual money growth, what will be the position of money growth and inflation below the 45 degree line?

- ▶ Money growth = inflation
- ▶ **Money growth < inflation**
- ▶ Money growth > inflation
- ▶ Incomplete information

**Question No: 48 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ grow at a rate equal to the rate of real growth plus the desired level of inflation.

- ▶ Monetary base
- ▶ **Monetary aggregates**
- ▶ Money multiplier
- ▶ Deposit multiplier

Policymakers should strive to ensure that the monetary aggregates grow at a rate equal to the rate of real growth plus the desired level of inflation.

**Question No: 49 ( Marks: 1 ) - Please choose one**

With an inflation objective of 2% and real growth forecast of 3.5%, equation of exchange tells us that policy makers should set velocity growth at 3%, according to this equation what would be the money growth?

- ▶ 8%
- ▶ 4%
- ▶ **2.5%**
- ▶ 1%

Money Growth + Velocity Growth = Inflation + Real Growth

$$MG + 3 = 2 + 3.5$$

$$MG = 2.5$$

**Question No: 50 ( Marks: 1 ) - Please choose one**

When interest rates are expected to \_\_\_\_\_, money demand goes up as people switch from holding bonds into holding money.

- ▶ **Rise**
- ▶ Decrease
- ▶ Remain stable
- ▶ Incomplete information

When interest rates are expected to rise, money demand goes up as people switch from holding bonds into holding money. Lesson 39

**Question No: 51 ( Marks: 1 ) - Please choose one**

Portfolio demand for money goes up as the liquidity of alternatives \_\_\_\_\_

► **Falls**

- Rises
- Remain stable
- Cannot be determined

As the liquidity of alternatives falls, the demand for money goes up

**Question No: 52 ( Marks: 1 ) - Please choose one**

Rising inflation makes foreign goods cheaper in relation to domestic goods, driving imports \_\_\_\_\_ and net exports \_\_\_\_\_.

► **Up, down**

- Down, up
- Down, down
- Up, up

rising inflation makes foreign goods cheaper in relation to domestic goods, driving imports

up and net exports down.

**Question No: 53 ( Marks: 1 ) - Please choose one**

Inflation falls and output rises until the economy returns to the point where current output \_\_\_\_\_ potential output and inflation equals the central bank's target.

► **Equals**

- Greater than
- Lower than
- Incomplete information

Inflation falls and output rises until the economy returns to the point where current output equals potential output and inflation equals the central bank's target.

**Question No: 54 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ in the aggregate demand curve, regardless of its source, will change inflation but not output.

- Upward shift



- ▶ Downward shift
- ▶ **Any shift**
- ▶ None of the given options

Any shift in the aggregate demand curve, regardless of its source, will change inflation but not output

**Question No: 1 ( Marks: 1 ) - Please choose one**

Which of the following is the final mode of payment?

- ▶ **Money**
- ▶ ATM
- ▶ Cheque
- ▶ Yet to discover

**Question No: 2 ( Marks: 1 ) - Please choose one**

Which of the following statement truly represents the main difference between debit card and store value card?

- ▶ **Debit card is operated by ATM machine while Store value card doesn't**
- ▶ Debit card appearance is different from Store value card
- ▶ Debit card is not specific for user but store value card is specific
- ▶ Debit card is specific for user but store value card is not

**Question No: 3 ( Marks: 1 ) - Please choose one**

Which of the following statements is correct?

- ▶ If you can buy the same goods this year as you bought last year with less money the money supply decreased.
- ▶ **To purchase the same goods today that were purchased one year ago requires more money, there must have been inflation**
- ▶ To purchase the same goods today as one year ago requires less money, the money supply must have increased
- ▶ To purchase the same goods today that were purchased one year ago requires the same amount of money, there must have been inflation

**Question No: 4 ( Marks: 1 ) - Please choose one**

Which of the following is the difference that lies between the options and futures?

- ▶ **Options is not binding whereas future is binding**
- ▶ Futures carry risks but Options didn't carry risk
- ▶ Centralized clearing houses guarantee futures but not options contracts
- ▶ There is no difference between options and futures

**Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following describes the general formula for the calculation of the compound interest?

- ▶  $FV = PV/(1+i)^n$
- ▶  $FV = PV/(1-i)^n$
- ▶  **$FV = PV*(1+i)^n$**
- ▶  $FV = PV*(1-i)^n$

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**Question No: 6 ( Marks: 1 ) - Please choose one**

What is true about the relationship between standard deviation and risk?

- ▶ **Greater the standard deviation greater will be the risk**
- ▶ Greater the standard deviation lower will be the risk
- ▶ Greater the standard deviation risk will be remained the same
- ▶ No relation between them

**Question No: 7 ( Marks: 1 ) - Please choose one**

Current yield is equal to which of the following?

- ▶ Price paid / yearly coupon payment
- ▶ Price paid \*yearly coupon payment
- ▶ Yearly coupon payment / face value of bond
- ▶ **Yearly coupon payment / price paid pg 43**

**Question No: 8 ( Marks: 1 ) - Please choose one**

The risk premium of a bond will:

- ▶ Higher for investment-grade bonds than for high-yield bonds
- ▶ Positive but small if the risk of default is zero
- ▶ Decrease when the default risk rises
- ▶ **Increase when the risk of default rises**

**Question No: 9 ( Marks: 1 ) - Please choose one**

Requiring a large deductible on the part of an insured is one way insurers treat the problem of:

- ▶ Free-riding
- ▶ **Moral hazard**
- ▶ Adverse selection
- ▶ The Lemons market

**Question No: 10 ( Marks: 1 ) - Please choose one**

Which of the following does not include in marketable securities?

- ▶ Common stocks
- ▶ Bonds of the U.S. Treasury
- ▶ Treasury Bills
- ▶ **Non transaction deposits**

**Question No: 11 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ is a component of the liability side of the commercial bank's balance sheet.

- ▶ **Deposits pg 81**
- ▶ Loans
- ▶ Securities
- ▶ All of the given options

**Question No: 12 ( Marks: 1 ) - Please choose one**

A stand by letter of credit is a form of:

- ▶ Loan
- ▶ **Insurance pg 80**
- ▶ Security
- ▶ Deposits

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**Question No: 13 ( Marks: 1 ) - Please choose one**

Funds of depository institution are primarily used in which of the following?

- ▶ Corporate bonds, Government bonds, Stocks, Mortgage

- ▶ **Cash, Loan, Securities pg 89**
- ▶ Stocks, Government bonds, corporate bonds, commercial papers
- ▶ Commercial papers, Bonds

**Question No: 14 ( Marks: 1 ) - Please choose one**

Securities firms include\_\_\_\_\_.

- ▶ Brokerage firms
- ▶ Investment banks
- ▶ Mutual fund companies
- ▶ **All of the given options pg 21**

**Question No: 15 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_is the combination of the term life insurance and savings account.

- ▶ Property insurance
- ▶ Health insurance
- ▶ **Whole life insurance pg 86**
- ▶ Casualty insurance

**Question No: 16 ( Marks: 1 ) - Please choose one**

Which of the following is a Primary source of funds of Finance company?

- ▶ **Bonds**
- ▶ Policy benefits to be paid out to futures
- ▶ Loan guarantees
- ▶ Shares sold to customers

Ref: Bonds Bank loans Commercial paper

**Question No: 17 ( Marks: 1 ) - Please choose one**

What matters most during a bank run is\_\_\_\_\_.

- ▶ **The liquidity of the bank**
- ▶ The solvency of the bank
- ▶ The number of depositors
- ▶ Safety of bank

Ref:

<http://74.125.47.132/search?q=cache:yuLoNKCxXbcJ:pages.towson.edu/edefranc/CHAP014.RTF+%22What+matters+most+during+a+bank+run+is%22&cd=4&hl=en&ct=clnk&gl=pk>

**Question No: 18 ( Marks: 1 ) - Please choose one**

Khushhali bank is:

- ▶ A Finance company
- ▶ A Securities firm
- ▶ **A Government sponsored enterprise**
- ▶ An insurance company

Ref: Government Sponsored Enterprises:

Federal credit agencies that provide loans directly for farmers and home mortgages, as well as guarantee programs that insure the loans made by private lenders. HBFC, ZTBL, Khushhali bank, SME Bank

**Question No: 19 ( Marks: 1 ) - Please choose one**

Under the purchase and assumption method of dealing with a failed bank, the FDIC

\_\_\_\_\_.

- ▶ Sells the failed bank to the Federal Reserve
- ▶ **Finds another bank to take over the insolvent bank**
- ▶ Takes over the day to day management of the bank
- ▶ Sells off the profitable loans of the failed bank in an open auction

**Question No: 20 ( Marks: 1 ) - Please choose one**

On which of the following success of monetary policy depends upon?

- ▶ It may be on the chance or by luck
- ▶ The institutional environment
- ▶ Competent people in responsible positions
- ▶ **Both the institutional environment and Competent people in responsible positions**

**Question No: 21 ( Marks: 1 ) - Please choose one**

For the Federal Reserve, the largest liability on their balance sheet is \_\_\_\_\_.

- ▶ Non-bank currency
- ▶ **Reserves**
- ▶ Government accounts
- ▶ Treasury certificates

**Question No: 22 ( Marks: 1 ) - Please choose one**

An open market purchase of U.S. Treasury securities by the Fed will cause the Fed's balance sheet to show \_\_\_\_\_.

- ▶ A decrease in the asset of securities and a decrease in the liability of reserves
- ▶ A decrease in the liability of reserves
- ▶ No change in the size of balance sheet except composition of assets
- ▶ **An increase in the asset category of securities and the liability category of reserves**

**Question No: 23 ( Marks: 1 ) - Please choose one**

Which one of the following is a primary policy tool of the Central Bank?

- ▶ Inflation rate
- ▶ Open market operations
- ▶ **Interest rate**
- ▶ Money supply

The target federal funds rate is the central bank's primary policy instrument.  
Interest rate at which banks borrow and lend reserves overnight (the federal funds rate)

**Question No: 24 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ is the strategy of buying and selling government securities:

- ▶ **Open market operations**
- ▶ Reserve requirement
- ▶ Discount loans
- ▶ Cash withdrawal

Ref: <http://highered.mcgraw>

**Question No: 25 ( Marks: 1 ) - Please choose one**

The \_\_\_\_\_ shows how the quantity of money is related to the monetary base:

- ▶ **Money multiplier**
- ▶ Deposit expansion multiplier
- ▶ Fiscal multiplier
- ▶ Tax multiplier

Ref: The money multiplier shows how the quantity of money (checking account plus currency) is related to the monetary base (reserves in the banking system plus currency held by the nonbank public)

**Question No: 26 ( Marks: 1 ) - Please choose one**

Which of the following is correct?

- ▶ **Monetary base = Currency + Reserves**
- ▶ Monetary base = Currency + Deposits
- ▶ Monetary base = Loans + Reserves
- ▶ Monetary base = Required reserves + Deposits

Ref:  $M = C + D$

Monetary Base = Currency + Reserves

**Question No: 27 ( Marks: 1 ) - Please choose one**

The central bank makes which type of loans?

- ▶ Primary credit
- ▶ Secondary credit
- ▶ Seasonal credit
- ▶ **All of the given options**

Ref: The central bank makes three types of loans:

Primary credit,

Secondary credit,

Seasonal credit

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following expresses the equation of exchange?

- ▶  **$MV = PY$**
- ▶  $MV = Y$
- ▶  $MY = PV$
- ▶  $MP = VY$

Ref: The equation of exchange,  $MV=PY$  provides the link between money and prices if we rewrite it in terms of percentage changes

**Question No: 29 ( Marks: 1 ) - Please choose one**

If the liquidity of alternative assets falls, the demand for money \_\_\_\_\_.

- ▶ **Increases**
- ▶ Decreases
- ▶ Remains unchanged
- ▶ None of the given option

Ref: As the liquidity of alternatives falls, the demand for money goes up

**Question No: 30 ( Marks: 1 ) - Please choose one**

Interest rate risk arises as a result of which one of the following consequences?

- ▶ It arises when banks make additional profit by using derivatives
- ▶ It arises when loan is not repaid
- ▶ It arises because of sudden demands of funds
- ▶ **It arises when two sides of the balance sheet do not match up**

The two sides of a bank's balance sheet often do not match up because liabilities tend to be short-term while assets tend to be long-term; this creates interest-rate risk

**Question No: 31 ( Marks: 1 ) - Please choose one**

A U.S. institution, United Bank, buys some financial assets denominated in British pounds.

Fluctuations in the dollar value of the pound will give rise to:

- ▶ Credit risk

- ▶ Operational risk
- ▶ **Foreign exchange risk**
- ▶ Country risk

Ref: Foreign exchange risk (the risk from unfavorable moves in the exchange rate)

**Question No: 32 ( Marks: 1 ) - Please choose one**

High State Bank purchases some U.S. Treasury bonds. We would view such bonds as being free of:

- ▶ **Credit risk**
- ▶ Interest Rate Risk
- ▶ Reinvestment risk
- ▶ All of the given options

[ref](#)

**Question No: 33 ( Marks: 1 ) - Please choose one**

In general, if the financial institution's balance sheet displays assets and liabilities that are "mismatched" to a significant degree, the institution faces:

- ▶ Operational risk
- ▶ Sovereign risk
- ▶ **Interest rate risk**
- ▶ Liquidity risk

The two sides of a bank's balance sheet often do not match up because liabilities tend to be short-term while assets tend to be long-term; this creates interest-rate risk

☐ In order to manage interest-rate risk, the bank must determine how sensitive its balance sheet (assets and liabilities) is to a change in interest rates;

**Question No: 34 ( Marks: 1 ) - Please choose one**

The idea that central banks should be independent of political pressure is an idea that:

- ▶ Is included in Federal Reserve Act in 1913
- ▶ **Is relatively new**
- ▶ Every central bank was founded upon
- ▶ Became quite popular in the early 1900's

[ref](#)

**Question No: 35 ( Marks: 1 ) - Please choose one**

Currency-to-deposit ratio is a factor that affects the quantity of money. This factor is controlled by which of the following?

- ▶ Central bank
- ▶ Bank regulators
- ▶ Commercial banks
- ▶ **Non bank public**

**Question No: 36 ( Marks: 1 ) - Please choose one**

The real purchasing power of money in circulation is expressed as which of the following?

- ▶  $MV \cdot PY$
- ▶  **$M/P$**
- ▶  $PY$
- ▶  $M/Y$

[ref](#)

**Question No: 37 ( Marks: 1 ) - Please choose one**

The FOMC targets the federal funds rate, but if they are going to alter the course of the economy they must influence which one of the following?

- ▶ The money growth rate as well
- ▶ The long-term nominal interest rate as well
- ▶ **The real interest rate as well**
- ▶ The nominal exchange rate as well

[Reference](#)

**Question No: 38 ( Marks: 1 ) - Please choose one**

Inflation in the long run would be determined by which one of the following?

- ▶ The exchange rate
- ▶ Aggregate demand
- ▶ **The rate of money growth**
- ▶ Aggregate supply

**Question No: 39 ( Marks: 1 ) - Please choose one**

According to real business cycle theory, aggregate economic fluctuations are caused by changes in:

- ▶ The money supply
- ▶ Fiscal policy
- ▶ High unemployment
- ▶ **The natural rate level of output**

**Question No: 40 ( Marks: 1 ) - Please choose one**

Which of the following represents the history of money uptill the modern age?

- ▶ **Gold/silver coins \_\_\_\_\_ Paper Currency \_\_\_\_\_ Electronic Fund Transfer**
- ▶ Paper Currency \_\_\_\_\_ Gold/Silver coins \_\_\_\_\_ Electronic Fund Transfer
- ▶ Electronic Fund Transfer \_\_\_\_\_ Paper Currency \_\_\_\_\_ Gold/silver coins
- ▶ Gold/silver coins \_\_\_\_\_ Electronic Fund Transfer \_\_\_\_\_ Paper currency

**Question No: 41 ( Marks: 1 ) - Please choose one**

Zero-Coupon Bonds are pure discount bonds since they sell at a price \_\_\_\_\_.

- ▶ Equal their face value
- ▶ **Below their face value**
- ▶ Above their face value
- ▶ None of the given options

**Question No: 42 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ pool money from individuals and invest in different portfolio and return is distributed in different share holders.

- ▶ **Mutual funds**
- ▶ Investment banks
- ▶ Brokers
- ▶ Finance companies

**Question No: 1 ( Marks: 1 ) - Please choose one**

Among the following which one is less liquid asset?

- ▶ Checking account



► **Car**

- Share
- Debit card

**Question No: 2 ( Marks: 1 ) - Please choose one**

Which one of the following is the primary cause of inflation?

- Decreased money supply
- **Increased money supply**
- Decreased interest rates
- Increased purchasing power

**Question No: 3 ( Marks: 1 ) - Please choose one**

In order to understand the link among money, inflation and economic growth. We need to measure which of the following?

- **Quantity of money**
- Volume of demand deposits
- Inflation rates
- Interest rates

**Question No: 4 ( Marks: 1 ) - Please choose one**

A borrower is promised a \$100 payment (including interest) one year from today. If the lender has an 8% opportunity cost of money, he should be willing to accept what amount today?

- Rs.100.00
- Rs.108.20
- **Rs.92.59**
- Rs.96.40

$$PV = 100/(1.08) = 92.59$$

**Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following provides the greatest incentive to borrow?

- A high real interest rate
- **A low real interest rate**
- A high nominal interest rate
- A low nominal interest rate

**Question No: 6 ( Marks: 1 ) - Please choose one**

The relationship between the price and the interest rate for a zero coupon bond is best described as \_\_\_\_\_.

- Volatile
- Stable
- **Inverse**
- No relationship

**Question No: 7 ( Marks: 1 ) - Please choose one**

The coupon rate of bond:

- **Is another term for the current yield**
- Is another term for the yield to maturity
- Could not be calculated for a zero-coupon bond
- None of the given options

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**Question No: 8 ( Marks: 1 ) - Please choose one**

Which of the following best describes default risk?

- **The chance the issuer will be unable to make interest payments or repay principal**
- The chance the issuer will retire the debt early
- The chance the issuing firm will be sold to another firm



- ▶ The chance the issuer will sell more debt

**Question No: 9 ( Marks: 1 ) - Please choose one**

Which of the following ratings shows "Highest quality and credit worthiness"?

▶ **AAA**

- ▶ AA
- ▶ BB
- ▶ A

**Question No: 10 ( Marks: 1 ) - Please choose one**

Considering the Liquidity Premium Theory, if investors expect short term interest rates to decrease:

- ▶ The yield curve must have a positive slope
- ▶ The yield curve must be inverted
- ▶ **The yield curve could be flat**
- ▶ The slope of the yield curve should actually increase

**Question No: 11 ( Marks: 1 ) - Please choose one**

Stock market bubbles can lead to:

- ▶ An inefficient allocation of resources
- ▶ **Stock market crashes**
- ▶ Patterns of volatile returns from the stock market
- ▶ All of the given options

**Question No: 12 ( Marks: 1 ) - Please choose one**

Which of the following does not include in the bank's reserves?

- ▶ Treasury bills
- ▶ Currency in the bank
- ▶ Bank's deposits at the Federal Reserves
- ▶ **Currency in ATM machines**

**Question No: 13 ( Marks: 1 ) - Please choose one**

Which of the following is a Depository institution?

- ▶ Commercial bank
- ▶ Savings institution
- ▶ Credit union
- ▶ **All of the given options**

**Question No: 14 ( Marks: 1 ) - Please choose one**

A bank's Return on Equity is calculated by which of the following?

- ▶ Dividing the banks liabilities by the bank's capital
- ▶ **Dividing the bank's net profit after taxes by the bank's capital**
- ▶ Bank's assets plus the net profit after taxes and dividing this sum by the bank's capital
- ▶ Dividing the bank's net profit after taxes by the sum of the bank's assets and its liabilities

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**Question No: 15 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ is a component of the liability side of the commercial bank's balance sheet.

- ▶ **Deposits**
- ▶ Loans
- ▶ Securities
- ▶ All of the given options

**Question No: 16 ( Marks: 1 ) - Please choose one**

Which one of the following is the similarity between pension funds and insurance companies?

- ▶ Pooling the savings of many investors
- ▶ **Spreading risk**
- ▶ Accepting deposits
- ▶ Both pool the savings of many investors and spread risk

**Question No: 17 ( Marks: 1 ) - Please choose one**

Pooling of small savings to provide loans is a function of which of the following institution?

- ▶ Insurance company
- ▶ **Depository Institutions (Bank)**
- ▶ Investment Bank
- ▶ Securities firm

**Question No: 18 ( Marks: 1 ) - Please choose one**

Funds of depository institution are primarily used in which of the following?

- ▶ Corporate bonds, Government bonds, Stocks, Mortgage
- ▶ **Cash, Loan, Securities**
- ▶ Stocks, Government bonds, corporate bonds, commercial papers
- ▶ Commercial papers, Bonds

**Question No: 19 ( Marks: 1 ) - Please choose one**

Which one of the following refers to the risk assessment and loss reimbursement guarantee by the individual risk experts of the relevant field?

- ▶ **Underwriting process**
- ▶ Insurance process
- ▶ Research process
- ▶ None of the given options

**Question No: 20 ( Marks: 1 ) - Please choose one**

The federal government is concerned about the health of the banking system for many reasons. Which of the following reason is the most important?

- ▶ Banks are where government bonds are traded.
- ▶ A significant number of people are employed in the banking industry.
- ▶ **Banks are of great importance in enabling the economy to operate efficiently.**
- ▶ Many people earn the majority of their income from interest on bank deposits.

**Question No: 21 ( Marks: 1 ) - Please choose one**

"The Government is too big to fail" policy applies to the\_\_\_\_\_.

- ▶ Bank run in specific highly populated states which impacts a large percent of the total population
- ▶ Banks that have branches in more than two states
- ▶ Large corporate payroll accounts held by some banks where many people would lose their income
- ▶ **Large banks whose failure would certainly start a widespread panic in the financial system**

**Question No: 22 ( Marks: 1 ) - Please choose one**

One advantage a central bank has over other businesses including banks is that\_\_\_\_\_.

- ▶ It receives all of its funding from the government
- ▶ It doesn't have stockholders
- ▶ **It can control its balance sheet at its own will**

- ▶ It doesn't have a board of directors

**Question No: 23 ( Marks: 1 ) - Please choose one**

An open market purchase of U.S. Treasury securities by the Fed will cause the Fed's balance sheet to show\_\_\_\_\_.

- ▶ A decrease in the asset of securities and a decrease in the liability of reserves
- ▶ A decrease in the liability of reserves
- ▶ No change in the size of balance sheet except composition of assets
- ▶ **An increase in the asset category of securities and the liability category of reserves**

**Question No: 24 ( Marks: 1 ) - Please choose one**

If required reserves are expressed by  $RR$  ; the required reserve rate by  $r_D$  and deposits by  $D$  ; the simple deposit expansion multiplier is expressed as:

- ▶  $r_D D$
- ▶  $(1/r_D) D$
- ▶  **$1/r_D$**
- ▶  $r_D$  times 10

The term  $(1/r_D)$  represents the simple deposit expansion multiplier.

**Question No: 25 ( Marks: 1 ) - Please choose one**

Which of the following best completes the statement; if people decrease their currency holdings, all else the same, the monetary base

- ▶ **Will not change but the quantity of M2 will increase**
- ▶ Will increase along with the quantity of M2
- ▶ Will decrease along with the quantity of M2
- ▶ There will be no change either to the monetary base or M2

**Question No: 26 ( Marks: 1 ) - Please choose one**

Identify the most appropriate statement

- ▶ The FOMC sets the federal funds rate
- ▶ The discount rate is the primary policy tool of the FOMC
- ▶ The difference between the target and actual federal funds rate is the dealer's spread
- ▶ **The FOMC sets the target federal funds rate**

The FOMC sets the target federal funds rate in order to influence interest rates and to expand or contract the money supply

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**Question No: 27 ( Marks: 1 ) - Please choose one**

Interest rate charged on overnight loans between the banks is known as:

- ▶ Discount rate
- ▶ Inflation rate
- ▶ Internal rate of return
- ▶ **Target federal funds rate**

Interest rate charged on overnight loans between banks is called Target Federal fund rate

**Question No: 28 ( Marks: 1 ) - Please choose one**

Key assumptions behind the quantity theory of money include which of the following?

- ▶ The change in nominal GDP is zero
- ▶ Percentage change in the price level equals the percentage change in real GDP
- ▶ **The velocity of money is constant**
- ▶ The money supply is fixed

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following statements is incorrect?

- ▶ The velocity of M2 is more volatile in the short run than the long run
- ▶ Money velocity being stable in the long run was correct as per Fisher's assumption
- ▶ The velocity of M2 is less stable than the velocity of M1
- ▶ **The velocity of M2 is relatively stable over long time periods**

**Question No: 30 ( Marks: 1 ) - Please choose one**

Inflation in the long run would be determined by which one of the following?

- ▶ The exchange rate
- ▶ Aggregate demand
- ▶ **The rate of money growth**
- ▶ Aggregate supply

Ref:

In the long run the economy moves to the point where current output equals potential output, while inflation is determined by money growth

□

The long-run aggregate supply curve is vertical at the point where current output equals potential output.

**Question No: 31 ( Marks: 1 ) - Please choose one**

Of all of the component parts of aggregate demand, the part least sensitive to changes in the real interest rate is:

- ▶ Investment
- ▶ **Government purchases**
- ▶ Consumption
- ▶ Net exports

**Question No: 32 ( Marks: 1 ) - Please choose one**

If government purchases increase and push current output above potential output, then monetary policymakers are likely to:

- ▶ **Raise the real interest rate**
- ▶ Lower the real interest rate
- ▶ Keep the real interest rate constant focussing on changing nominal interest rate only
- ▶ Purchase Treasury securities

This will cause the inflation to rise and to slow down the inflation they will raise the interest rate.

**Question No: 33 ( Marks: 1 ) - Please choose one**

Which one of the following is NOT true for gap analysis?

- ▶ It is the difference between the yield on interest sensitive assets and liabilities
- ▶ It is the difference in the maturity of assets and liabilities
- ▶ Banks manage credit risk by using gap analysis
- ▶ **It is a formal study of what a business is doing currently and where it wants to go in the future**

Gap analysis highlights the gap or difference between the yield on interest sensitive assets and the yield on interest-sensitive liabilities

□ Multiplying the gap by the projected change in the interest rate yields the change in the bank's profit

□ Gap analysis can be further refined to take account of differences in the maturity of assets and

liabilities

- ☐ Banks can manage interest-rate risk by matching the interest-rate sensitivity of assets with the interest-rate sensitivity of liabilities,
- ☐ Purchase short term securities to match variable rate deposits
- ☐ Make long term loans at floating rates

**Question No: 34 ( Marks: 1 ) - Please choose one**

A U.S. institution, United Bank, buys some financial assets denominated in British pounds. Fluctuations in the dollar value of the pound will give rise to:

- ▶ Credit risk
- ▶ Operational risk
- ▶ **Foreign exchange risk**
- ▶ Country risk

**Question No: 35 ( Marks: 1 ) - Please choose one**

High State Bank purchases some U.S. Treasury bonds. We would view such bonds as being free of:

- ▶ **Credit risk**
- ▶ Interest rate risk
- ▶ Reinvestment risk
- ▶ All of the given options

**Question No: 36 ( Marks: 1 ) - Please choose one**

Required reserve-to-deposit ratio is a factor that affects the quantity of money. This factor is controlled by which of the following?

- ▶ Central bank
- ▶ **Bank regulators**
- ▶ Commercial banks
- ▶ Non bank public

**Question No: 37 ( Marks: 1 ) - Please choose one**

The real purchasing power of money in circulation is expressed as which of the following?

- ▶  $MV \cdot PY$
- ▶  **$M/P$**
- ▶  $PY$
- ▶  $M/Y$

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**Question No: 38 ( Marks: 1 ) - Please choose one**

The FOMC targets the federal funds rate, but if they are going to alter the course of the economy they must influence which one of the following?

- ▶ The money growth rate as well
- ▶ The long term nominal interest rate as well
- ▶ **The real interest rate as well**
- ▶ The nominal exchange rate as well

**Question No: 39 ( Marks: 1 ) - Please choose one**

If real interest rate increases, investment will:

- ▶ Increase
- ▶ **Decrease**
- ▶ Remain constant
- ▶ None of the given options

**Question No: 40 ( Marks: 1 ) - Please choose one**

The aggregate demand curve will be relatively flat in which of the following case?

- ▶ **If current output is very sensitive to inflation**

- ▶ If current output is not sensitive to inflation
- ▶ If policymakers react more cautiously, to a movement of current inflation
- ▶ If the monetary policy reaction curve is also flat

The aggregate demand curve will be relatively flat if current output is very sensitive to inflation (a change in current inflation causes a large movement in current output) Steep if current output is not very sensitive to inflation

**Question No: 41 ( Marks: 1 ) - Please choose one**

Which of the following will shift the Aggregate Demand curve to the right?

- ▶ A decrease in autonomous money demand
- ▶ An increase in Exports
- ▶ An increase in potential output
- ▶ **An increase in Government purchases**

Increases in aggregate Demand arising from a change in monetary policy, such as a higher inflation target, will shift the aggregate demand curve to the right. Increases in interest rate intensive components of aggregate demand, such as government purchases, will also shift the aggregate demand curve to the right.

**Question No: 42 ( Marks: 1 ) - Please choose one**

When you need more units of money to buy the same amount of good which you bought a month or a year ago. What does it mean?

- ▶ Your economy has a high economic growth rate
- ▶ Your economy's GDP value is more than previous year
- ▶ Price in your economy is falling causing deflation
- ▶ **Price in your economy is raising causing inflation**

**Question No: 43 ( Marks: 3 )**

Give a single line definition of the following.

**Answer:**

1) **Credit risk:** This is a risk which arises when loans are not repaid. It is avoided by diversification and checking credit worthiness.

2) **Interest-rate risk:** The assets and liabilities of a bank are sensitive to interest rate but liabilities are of short term and assets of long term so by an increase in interest rate banks have the risk that value of assets fall more than that of liabilities affecting the net worth or capital of bank.

3) **Liquidity risk:** It is a risk associated with a sudden increase in demand of funds. If bank can not meet the withdrawal requirement of all its customers, bank is considered illiquid and it may fail.

**Question No: 44 ( Marks: 3 )**

Describe the role of Central bank as "The Bankers Bank".

**Answer:** The central Bank works as a Banker's Bank. The role which it plays is

- Lender of last resort. If banks go illiquid or during financial stress central bank provide discount loans to banks.
- Manage interbank payment system
- Monitors the working of banks and stabilizing financial system

**Question No: 45 ( Marks: 3 )**

What is the effect of an increase in potential output on inflation and output?

**Answer:** Increase in potential output shifts long run aggregate supply curve to right, this shift has no impact on short run aggregate supply curve so inflation and output remains unchanged. But in long run now as potential output is increased so current output will be below potential output creating recessionary output gap causing inflation to fall and output begins to rise.

**Question No: 46 ( Marks: 5 )**

Which relationship is shown by the monetary policy reaction curve?

What will be the change in monetary policy reaction curve if the given factors change?

- An increase in the Central Bank's Inflation Target
- An increase in the Long-run real interest rate

**Answer:** Monetary policy reaction curve gives a relationship between inflation and real interest rate. It is set so that when current inflation equals target inflation, real interest rate equals long run real interest rate.

- Increase in central bank's inflation target shifts the monetary policy reaction curve to right
- Increase in long run real interest rate shifts the curve to left.

**Question No: 47 ( Marks: 5 )**

Fill the table below:

Financial intermediary	Primary Sources of Funds (Liabilities)	Primary Uses of funds (Assets)	Services provided
Depository institutions (Bank)	Checkable deposits, savings and time deposits Borrowing from other sources	Cash reserves, Market securities, loans	Pool savings, access to payment system, Diversification, liquidity
Insurance company	Expected claims	Corporate and government bonds, stocks	Pooling of risk

**Question No: 48 ( Marks: 10 )**

Discuss the factors that cause an increase or decrease in the transaction and portfolio demand for money.

**Answer:**

**Transaction Demand for money:** The quantity of money people hold for transaction purposes is called transaction demand for money. It depend on following factors

- Nominal income of people:** As the nominal income increases spending increases which causes an increase in the demand for money holding.
- Cost of holding money:** The cost of money holding is the interest foregone in holding the money in hand. So if the nominal interest rate is higher people will prefer keeping money in banks etc so demand for money holding decreases.
- Availability of substitutes:** If people have cheaper alternative means of payment they will hold less money.

**Portfolio Demand for Money:** Money is one instrument that people can hold in their investment portfolio. The demand for holding money in portfolio is dependent on following factors:

- Wealth:** An increase in wealth increases the demand for money



- **Return on alternative investments:** As the return on alternative investments fall people hold more money.
- **Expected future interest rate:** An increase in expected future interest rate increases holding demand for money
- **Riskiness of alternatives:** Riskier the alternative investments greater the demand for money.
- **Liquidity:** If alternative investments become more liquid demand for money decreases

**Question No: 49 ( Marks: 10 )**

If Excess reserves are not available how a bank manages Liquidity risk?

**Answer:** One way of managing liquidity risk is to keep excess reserves but this is not profitable as reserve is interest free.

There are two other ways through which a bank can manage liquidity risk.

- Adjusting other assets of balance sheet
- Adjusting liability side

In adjusting assets banks can instead of paying through reserves, fulfill withdrawal requirements by adjusting other assets. Banks can either

- sell their securities
- sell their loans
- refuse a loan renewal

The second option banks have is to adjust their liabilities.

- Borrow from other banks or central bank
- Attracting more deposits

**Question No: 1 ( Marks: 1 ) - Please choose one**

Investing was an activity reserved for only \_\_\_\_\_ in the past.

- ▶ Business men
- ▶ Traders
- ▶ **Wealthy people**
- ▶ Stock brokers

**Financial Instruments**

- To transfer wealth from savers to borrowers



- To transfer risk to those best equipped to bear it.
- Once investing was an activity reserved for the wealthy

**Question No: 2 ( Marks: 1 ) - Please choose one**

Financial instruments are evolved just as\_\_\_\_\_.

▶ **Currency**

- ▶ Stock
- ▶ Bond
- ▶ Commodity

**Question No: 3 ( Marks: 1 ) - Please choose one**

Which of the following market allowed networks of dealers that are connected electronically?

- ▶ New York Stock Exchange
- ▶ **NASDAQ**
- ▶ Large exchanges in London
- ▶ Large exchanges in Tokyo

**Question No: 4 ( Marks: 1 ) - Please choose one**

If at 5% interest rate, \$100 payment has a PV of \$90.70. Then what will be the PV value of \$200 payment? (Without applying formula).

- ▶ \$45.35
- ▶ \$272.1
- ▶ **\$181.4**

► \$362.8

**Question No: 5 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ measures the probability of worst outcome in any investment project.

- Variance
- Standard deviation
- **Value at risk**
- Hedging

Value at Risk (VaR)

Sometimes we are less concerned with the spread of possible outcomes than we are with the value of the worst outcome. To assess this sort of risk we use a concept called "value at risk."

Value at risk measures risk at the maximum potential loss.

In its formal definition, value at risk is the worst possible loss over a specific time horizon, at a given probability.

**Question No: 6 ( Marks: 1 ) - Please choose one**

If the annual interest rate is 6% (.06); the price of a one year Treasury bill would be:

- \$94.00
- **\$94.33**
- \$95.25
- \$96.10

100/1.06

**Question No: 7 ( Marks: 1 ) - Please choose one**

Which of the following best describes default risk?

► **The chance the issuer will be unable to make interest payments or repay principal**

- The chance the issuer will retire the debt early
- The chance the issuing firm will be sold to another firm
- The chance the issuer will sell more debt

**Question No: 8 ( Marks: 1 ) - Please choose one**

Mr. Ghazanfar wants to invest Rs.2,000 in a bond. If this bond is expected to receive a return of Rs.100 per month and a tax of Rs.3 will be deducted on this return. Then Mr. Ghazanfar made his decision by considering which of the following fact?

- He is attracted by Rs.100 return per month
- **He considers Rs.100 less deduction for tax i.e.Rs.97**
- He takes into consideration only the portion of tax which is deducted
- His decision will not be affected by any of the given factors

**Question No: 9 ( Marks: 1 ) - Please choose one**

Calculate tax implication on Bond yields. Consider a one year bond face value Rs. 100 (issued by Government) with coupon rate of 6%.What is the income of bond that is received at maturity? (Tax rate is 30%).

► **Rs.6**

- Rs.1.80
- Rs.4.20

► Rs.7.80

Government bonds are not taxable.

**Question No: 10 ( Marks: 1 ) - Please choose one**

Which of the following statement is true for the given sentence, "that tax affects the bond return"?

► **Because only interest income they receive from bond is taxable**

► Because principal amount and interest income they receive from bond is taxable

► Because bond holders are taxpayers

► Because all bond is sold with a condition that tax will be deducted from its return

**Question No: 11 ( Marks: 1 ) - Please choose one**

The fact that common stockholders are residual claimants means:

► The stockholders receive their dividends before any other residuals are paid

► **The stockholders receive the remains after everyone else is paid**

► The stockholders are paid any past due dividends before other claims are paid

► The common stockholders are responsible for all corporate debts

**Question No: 12 ( Marks: 1 ) - Please choose one**

If a bank sells off all of its assets and pays all of its liabilities the remaining amount would be\_\_\_\_\_.

- ▶ Net profit
- ▶ Net worth
- ▶ Reserves
- ▶ Excess reserves

Net worth is the owner's stake in the firm, the value of the firm minus the value of its liabilities

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**Question No: 13 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ measures how efficiently a bank uses its assets.

▶ **Return on Assets**

- ▶ Return on Equity
- ▶ Bank Capital
- ▶ Bank Profitability

**Question No: 14 ( Marks: 1 ) - Please choose one**

The procedure that estimates the interest rate sensitivity of a bank's assets and liabilities is called \_\_\_\_\_.

▶ Managing credit risk

▶ **Gap analysis**

- ▶ Trading risk minimization
- ▶ Managing liquidity risk

**Question No: 15 ( Marks: 1 ) - Please choose one**

An insurance company provides liability insurance to a bakery protecting the owner against claims from customers. One area of coverage is protection against food poisoning claims. The insurance company may periodically send an employee into the bakery to observe food preparation and food storage processes. The insurance company is trying to avoid which of the following?

- ▶ Paying claims
- ▶ Adverse selection
- ▶ **Moral hazard**
- ▶ Transaction cost

**Question No: 16 ( Marks: 1 ) - Please choose one**

Which of the following is not a function of Investment banks?

- ▶ Research and advice for investors
- ▶ Immediate sale of assets
- ▶ **Access to payment system**
- ▶ Access to spectrum of assets allowed diversification

**Question No: 17 ( Marks: 1 ) - Please choose one**

Funds of depository institution are primarily used in which of the following?

- ▶ Corporate bonds, Government bonds, Stocks, Mortgage
- ▶ **Cash, Loan, Securities**
- ▶ Stocks, Government bonds, corporate bonds, commercial papers
- ▶ Commercial papers, Bonds

**Question No: 18 ( Marks: 1 ) - Please choose one**

All of the following are the primary sources of funds for depository institutions EXCEPT?

- ▶ Checkable deposits
- ▶ Savings and time deposits
- ▶ Short term loans
- ▶ **Borrowings from other banks**

**Question No: 19 ( Marks: 1 ) - Please choose one**

Which one of the following refers to the risk assessment and loss reimbursement guarantee by the individual risk experts of the relevant field?

- ▶ **Underwriting process**
- ▶ Insurance process
- ▶ Research process
- ▶ None of the given options

**Question No: 20 ( Marks: 1 ) - Please choose one**

The "trade off" which can impact bank's likelihood of failure is described as:

- ▶ The larger the bank in asset size the more likely it will fail
- ▶ The more competitive the banking environment, the more likely the bank will fail
- ▶ **The more profitable the bank, the less liquid the bank will be and the more likely it will fail**

► The greater the regulation from government the more likely the bank will fail

**Question No: 21 ( Marks: 1 ) - Please choose one**

On which of the following success of monetary policy depends upon?

- It may be on the chance or by luck
- The institutional environment
- Competent people in responsible positions
- Both the institutional environment and Competent people in responsible positions

**Question No: 22 ( Marks: 1 ) - Please choose one**

A central bank's balance sheet would categorize each of the following as liabilities EXCEPT:

- Currency
- Gold
- Reserves
- Accounts of the commercial banks

**Question No: 23 ( Marks: 1 ) - Please choose one**

If the required reserve rate is ten percent and banks do not hold any excess reserves and there are no changes in currency holdings, a \$2 million open market purchase by the Fed will result in deposit creation of:

- \$20 million
- \$18 million
- \$2 million



- ▶ \$1,800,000

**Question No: 24 ( Marks: 1 ) - Please choose one**

If required reserves are expressed by RR ; the required reserve rate by  $r_D$  and deposits by D; the simple deposit expansion multiplier is expressed as:

- ▶  $r_D D$
- ▶  $(1/r_D) D$
- ▶  $1/r_D$
- ▶  $r_D$  times 10

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**Question No: 25 ( Marks: 1 ) - Please choose one**

The \_\_\_\_\_ shows how the quantity of money is related to the monetary base:

- ▶ Money multiplier
- ▶ Deposit expansion multiplier
- ▶ Fiscal multiplier
- ▶ Tax multiplier

**Question No: 26 ( Marks: 1 ) - Please choose one**

Central banks today place most of their focus on which of the following?

- ▶ The unemployment rate
- ▶ The quantity of M2

- ▶ Interest rates
- ▶ Controlling the size of the money multiplier

**Question No: 27 ( Marks: 1 ) - Please choose one**

Which of the following statement is true regarding monetary policy tools?

- ▶ The Fed currently uses a quantity tool for monetary policy
- ▶ The required reserve rate is the most easily observable tool
- ▶ The federal funds rate is not the best tool because it fails the controllable test of a good monetary policy tool.
- ▶ The central banks cannot set a quantity and a price tool simultaneously

**Question No: 28 ( Marks: 1 ) - Please choose one**

Inflation can be thought of as which of the following?

- ▶ A decrease in the price of money
- ▶ An increase in the price of money
- ▶ No change in the price of money, just in the supply of money
- ▶ No change in the price of money, just in the demand for money

**Question No: 29 ( Marks: 1 ) - Please choose one**

If a central bank sets an explicit inflation target it would require which one of the following?

- ▶ More emphasis on the interest rate target and less on a money target
- ▶ To shift their focus entirely to a nominal interest rate target
- ▶ Willingness to live with more volatility in the interest rate
- ▶ To give up control of targeting the monetary base

**Question No: 30 ( Marks: 1 ) - Please choose one**

Inflation in the long run would be determined by which one of the following?

- ▶ The exchange rate
- ▶ Aggregate demand
- ▶ The rate of money growth
- ▶ Aggregate supply

**Question No: 31 ( Marks: 1 ) - Please choose one**

Liquidity is the risk that arises as a result of which one of the following consequences?

- ▶ It arises because of sudden demands of funds
- ▶ It arises when two sides of the balance sheet do not match up
- ▶ It arises when banks make additional profit by using derivatives
- ▶ It arises when loan is not repaid

**Question No: 32 ( Marks: 1 ) - Please choose one**

For securities issued across international borders, changes in the legal and governmental environment can make it difficult for the investor to collect. Such a risk would be termed as:

- ▶ Credit risk
- ▶ Sovereign risk
- ▶ Insolvency risk
- ▶ Interest rate risk

**Question No: 33 ( Marks: 1 ) - Please choose one**

In general, if the financial institution's balance sheet displays assets and liabilities that are "mis-matched" to a significant degree, the institution faces:

- ▶ Operational risk
- ▶ Sovereign risk
- ▶ Interest rate risk
- ▶ Liquidity risk

**Question No: 34 ( Marks: 1 ) - Please choose one**

The idea that central banks should be independent of political pressure is an idea that:

- ▶ Is included in Federal Reserve Act in 1913
- ▶ Is relatively new
- ▶ Every central bank was founded upon
- ▶ Became quite popular in the early 1900's

**Question No: 35 ( Marks: 1 ) - Please choose one**

One thing that is true about economic policy in the U.S. is that:

- ▶ Monetary and Fiscal policy often times conflict

- ▶ Fiscal and monetary policy never conflict
- ▶ Monetary policy ultimately controls fiscal policy
- ▶ Fiscal policy ultimately controls monetary policy

**Question No: 36 ( Marks: 1 ) - Please choose one**

Which of the following is the component of monetary base?

- ▶ Currency in the hands of the public
- ▶ Reserves of the banking system
- ▶ Vault cash plus deposits at the central bank
- ▶ All of the given options

**Question No: 37 ( Marks: 1 ) - Please choose one**

In the long run, if we ignore changes in velocity then which of the following statement is true?

- ▶ Inflation will equal money growth less the growth in potential output
- ▶ Inflation will equal the rate of money growth
- ▶ Inflation will be zero
- ▶ Inflation will equal money growth plus the growth in potential output

**Question No: 38 ( Marks: 1 ) - Please choose one**

Complete crowding-out will occur if:

- ▶ The money supply rises when Government purchases increases
- ▶ An increase in Government purchases does not change Consumption
- ▶ Taxes rise when Government purchases increases

► An increase in Government purchases causes an equal fall in Consumption, Investment, and Net Exports

**Question No: 39 ( Marks: 1 ) - Please choose one**

An increase in the money supply will do all the following except:

- Increase real GDP in the short-run
- Increase Price level in the long-run
- Increase Price level in the short-run
- Increase real GDP in the long-run

**Question No: 40 ( Marks: 1 ) - Please choose one**

An increase in capital stock, which shifts long-run supply out, will:

- Lower prices and will not change output
- Increase prices and will not change output
- Lower prices and will increase output
- Increase prices as well as output

**Question No: 41 ( Marks: 1 ) - Please choose one**

Components of  $M_1$  **DO NOT** include which one of the following?

- Currency in the hands of public
- Demand deposits
- Small denominations time deposit
- Checkable deposits

1. Which of the following correctly states the relationship regarding banks' balance sheets?

- A. Total Bank Liabilities = Total Bank capital + Total Bank Assets.
- B. Total Bank Assets = Total Bank Liabilities + Total Bank Capital.**
- C. Total Bank Assets = Total Bank Liabilities – Total Bank Capital.
- D. Total Bank Assets = Total Bank Capital – Total Bank Liabilities.

2. A bank's reserves do not include:

- A. U.S. Treasury bills.**
- B. Currency in the bank.
- C. The bank's deposits at the Federal Reserve.
- D. Currency in ATM machines.

3. Eurodollars are:

- A. Dollar-denominated deposits in foreign banks.**
- B. Euro denominated deposits in U.S. Banks
- C. The currency of the European Economic Union.
- D. Dollars that are specially printed for use in the European Union countries to minimize counterfeiting.

4. One of the unique problems that banks face is:

- A. They hold illiquid assets to meet liquid liabilities.**
- B. They hold liquid assets to meet illiquid liabilities.
- C. They hold liquid assets to meet liquid liabilities.
- D. Both banks' assets and liabilities are illiquid.

5. Central banks perform each of the following EXCEPT:

- A. Issue currency.
- B. Operate a payments system.
- C. Controls the availability of money and credit.
- D. Manages fiscal policy.**

6. The specific goals of central banks include each of the following EXCEPT:

- A. High and stable real growth.
- B. Low and stable inflation.
- C. High levels of imports.**
- D. Low and stable unemployment rates.

7. Small and medium enterprise (SME) Bank is:

- A. A Finance company
- B. A Securities firm
- C. **A Government sponsored enterprise**
- D. An insurance company

8. is classified as a liability for a commercial bank:

- A. Reserves
- B. Commercial loans
- C. **Demand deposits**
- D. Deposits with the Federal Reserve

9. is a primary policy tool of the Central Bank:

- A. Inflation rate
- B. **Open market operations**
- C. interest rate
- D. money supply

10. is a component of the liability side of the commercial bank's balance sheet:

- A. **Deposits**
- B. Loans
- C. Securities
- D. All of the given options

**MONEY & BANKING (MGT411)**  
**SPRING SEMESTER 2007**  
**QUIZ # 03**  
**MARKS: 10**

1- Which of the following appears as a liability in the balance sheet of the central bank?

- A. Currency
- B. The government's deposit account
- C. The deposit accounts of the commercial banks
- D. **All of the given options**



2- The transaction in which central bank buys or sells foreign currency reserves is known as:

- A. **Foreign exchange intervention**
- B. Open market operation
- C. Discount loans
- D. Reserve requirement

3- Which of the following equations depicts equation of exchange?

- A.  $MV = VY$
- B.  **$MV = PY$**
- C.  $MP = VY$
- D.  $V = PY$

4- -----is determined by the central bank and the behavior of the banking system:

- A. Money demand
- B. **Money supply**
- C. Aggregate demand
- D. Aggregate supply

5- If the alternative assets become more risky then the demand for money:

- A. **Goes up**
- B. Goes down
- C. Remains unchanged
- D. None of the given options

6- The interest rate at which aggregate demand equals potential output is known as:

- A. Discount rate
- B. Short run real interest rate
- C. **Long run real interest rate**
- D. Inflation rate

7- An increase in the long run real interest rate shifts the monetary policy reaction curve to the:

- A. Right
- B. **Left**

- C. No change
- D. None of the given options

**8- An increase in oil prices causes the short run aggregate supply curve to shift:**

- A. Upward**
- B. Downward
- C. No change
- D. All of the given options

**9- An increase in potential output shifts the long run aggregate supply curve to the:**

- A. Left
- B. Right**
- C. No change
- D. None of the given options

**10- -----policy works slowly and almost impossible to implement effectively:**

- A. Monetary policy
- B. Fiscal policy**
- C. Trade policy
- D. Foreign exchange policy

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4. One of the unique problems that banks face is:

- a. **They hold illiquid assets to meet liquid liabilities.**
- b. They hold liquid assets to meet illiquid liabilities.
- c. They hold liquid assets to meet liquid liabilities.
- d. Both banks' assets and liabilities are illiquid.

5. Central banks perform each of the following EXCEPT:

- a. Issue currency.
- b. Operate a payments system.
- c. Controls the availability of money and credit.
- d. **Manages fiscal policy.**

6. The specific goals of central banks include each of the following EXCEPT:

- a. High and stable real growth.
- b. Low and stable inflation.
- c. **High levels of imports.**
- d. Low and stable unemployment rates.

7. Small and medium enterprise (SME) Bank is:

- a. A Finance company
- b. A Securities firm
- c. **A Government sponsored enterprise**
- d. An insurance company

**8. is classified as a liability for a commercial bank:**

- a. Reserves
- b. Commercial loans
- c. Demand deposits**
- d. Deposits with the Federal Reserve

**9. is a primary policy tool of the Central Bank:**

- a. Inflation rate
- b. Open market operations**
- c. interest rate
- d. money supply

**10 ----- is a component of the liability side of the commercial bank's balance sheet:**

- a. Deposits**
- b. Loans
- c. Securities
- d. All of the given options

**1. According to the liquidity premium theory of the term structure, when the yield curve has its usual slope, the market expects:**

- a. Short-term interest rates to rise sharply.**
- b. Short-term interest rates to stay near their current levels.
- c. Short-term interest rates to drop sharply.
- d. None of the above.

**2. When the yield curve slopes down,**

- a. The expectations theory suggests that short-term interest rates are expected to fall.**
- b. The segmented markets theory suggests that short-term interest rates are expected to rise.
- c. The expectations theory suggests that short-term interest rates are expected to rise.
- d. The liquidity premium theory suggests that short-term interest rates are expected to rise.**

**3. Which of the following patterns of term structure occur most frequently?**

- a. Ascending yield curve**
- b. Descending yield curve
- c. Flat yield curve
- d. Humped yield curve

**4. Common stocks (or corporate stocks):**

- a. Represent an IOU on the part of the issuing firm
- b. Entitle the holder to contractual payments
- c. Were a poor investment over the period 1982-1996
- d. **Allows the holder to share in the earnings of the firm**

**5. Financial intermediaries:**

- a. Channel funds from savers to borrowers
- b. Greatly enhance economic efficiency
- c. Have been an source of many financial innovations
- d. **Have done all of the above**

**6. Which of the following cannot be described as indirect finance?**

- a. You take out a mortgage from your bank.
- b. An insurance company lends money to General Motors Corporation.
- a. **You borrow \$1000 from your best friend.**
- c. You buy shares in a mutual fund.

**7. Which of the following is a depository institution?**

- a. Life insurance Company
- b. **Credit union**
- c. Pension fund
- d. Finance company

**8. Which of the following is traded in a money market?**

- a. U.S. Treasury bonds
- b. Mortgages
- c. Common stocks
- d. **Federal funds**

**9. The primary liabilities of a savings and loan association are:**

- a. Bonds.
- b. Mortgages.
- c. **Deposits.**
- d. Commercial paper.

**10. Financial intermediaries promote efficiency and thereby increase people's wealth:**

- a. By reducing the transaction cost of linking together lender and borrowers.
- b. To the extent that they help solve problems created by adverse selection and moral hazard.
- c. By providing additional jobs.
- d. **Because of only (a) and (b) of the above.**

11. When an investment bank purchases a new issue of securities in the hopes of making a profits, it is said to \_\_\_\_\_ the issue.

- a. Pawn
- b. Back stock
- c. Syndicate
- d. **Underwrite**

12. Which of the following is a use for commercial bank funds?

- a. Loans
- b. Securities
- c. Reserves
- d. **All of the above**

13. On the commercial bank balance sheet, which of the following is an asset?

- a. Capital accounts
- b. **Deposits with Federal Reserve**
- c. transactions deposits
- d. All of the above

14. If a bank has total assets of \$100 million and capital accounts of \$8 million, then:

- a. **Its total liabilities are \$92 million**
- b. Its total liabilities are \$108 million
- c. It has an equity multiplier of 10
- d. None of the above are true

15. A bank can increase its leverage by increasing its ratio of:

- a. Earnings/total assets
- b. **Total assets/equity capital**
- c. Earnings/equity capital
- d. Equity capital/total assets

16. When you deposit a \$100 check in your bank account at the First National Bank of Chicago and you withdraw \$50 in cash, then:

- a. The liabilities of First National Bank rise by \$100.
- b. The reserves of First National Bank rise by \$100.
- c. The assets of the First National Bank rise by \$100.
- d. **The liabilities of the First National Bank rise by \$50.**

**17. Commercial banks obtain funds by:**

- a. Issuing demand deposits
- b. Borrowing from other banks
- c. Issuing ownership claims (equity)
- d. **All of the above**

**18. A bank failure is more likely to occur when:**

- a. A bank holds more U.S. government securities
- b. **A bank suffers large deposit outflows.**
- c. A bank holds more excess reserves.
- d. A bank has more bank capital.

**19. measures how efficiently a bank uses its assets:**

- a. **Return on assets**
- b. Return on equity
- c. Bank capital
- d. Bank Profitability

**20 ----- refers to the risk assessment and loss reimbursement guarantee by the individual risk experts of the relevant field:**

- a. **Underwriting process**
- b. Research process
- c. Insurance process
- d. None of the given options

**21. The euro is the name for:**

- a. A currency deposited outside its country of origin.
- b. A bond sold internationally outside of the country in whose currency the bond is denominated.
- c. **A common European currency.**
- d. A type of sandwich.

**22. Banks can operate in other countries by:**

- a. Offering same services as in home country
- b. Opening a foreign branch
- c. Creating an international Banking Facility
- d. **All of the given options.**

**23. The theory of efficient markets:**

- a. **Allows for higher than average returns if the investor takes higher than average risk**
- b. Says insider information makes markets less efficient
- c. Rules out high returns due to chance
- d. Assumes people have equal luck

**24. If information in a financial market is asymmetric, this means:**

- a. Borrowers and lenders have perfect information
- b. **Borrowers would have more information than lenders**
- c. Borrowers and lenders have the same information
- d. Lenders lack any information

**25. Khushali Bank is:**

- a. A Finance company
- b. A Securities firm
- c. **A Government sponsored enterprise**
- d. An insurance company

**1) Instruments that are not directly under the control of the Central Bank are referred to as:**

- A. Operating instruments
- B. **Intermediate targets**
- C. Economic instruments
- D. Social instruments

**2) Every country with high inflation has \_\_\_\_\_ money growth:**

- A. **High**
- B. Low
- C. Medium
- D. Zero

**3) Which of the following statement is true?**

- A. **Nominal GDP = PY**
- B. Nominal GDP > PY
- C. Nominal GDP < PY
- D. Nominal GDP  $\neq$  PY

**4) According to Milton Friedman, Central Banks should set money growth at a \_\_\_\_\_ rate:**

- A. Increasing rate
- B. Decreasing rate



C. **Constant rate**

D. Zero rate

5) \_\_\_\_\_ is one of the financial instruments that we can hold in our investment portfolios:

A. Bonds

B. Shares

C. **Money**

D. Term finance certificates (TFC)

6) Increases in price level will \_\_\_\_\_ the purchasing power of money:

A. Increase

B. **Decrease**

C. No change

D. Balance

7) At long run real interest rate:

A. **AD = Potential Output**

B.  $AD > \text{Potential Output}$

C.  $AD < \text{Potential Output}$

D. None of the given options

8) \_\_\_\_\_ curve is downward sloping because higher inflation reduces real money balances:

A. **Aggregate Demand Curve**

B. Aggregate Supply Curve

C. IS Curve

D. LM Curve

9) Increases in government purchases will \_\_\_\_\_ the aggregate demand:

A. **Increase**

B. Decrease

C. No change

D. Balance

10) A change in cost of producing output causes the \_\_\_\_\_ curve to shift:

- A. Aggregate Demand Curve
- B. Aggregate Supply Curve**
- C. IS Curve
- D. LM Curve
- E. "Don't put all your eggs in one basket" is the famous statement of:
  - a. Moral hazard
  - b. Indirect finance
  - c. Asymmetric information
  - d. Diversification**
- F. According to which principle, people and companies concentrate on such activities for which their opportunity cost is lower?
  - a. Principle of absolute advantage
  - b. Principle of comparative advantage**
  - c. Principle of management
  - d. None of the given options
- G. The problem of "asymmetric information" arises because:
  - a. Lender knows more than the borrower
  - b. Borrower knows more than the lender**
  - c. Borrower and lender have different goals
  - d. Borrower and lender know the future much less than they do the present
- H. Nonprofit depository institutions that are owned by people with a common bond are known as:
  - a. Commercial banks
  - b. Central banks
  - c. Credit unions**
  - d. Insurance companies
- I. Which of the following is true?
  - a. Total bank assets = Total bank liabilities + Bank capital
  - b. Bank capital = Total bank assets – Total bank liabilities
  - c. Total bank liabilities = Total bank assets – Bank capital

d. **All of the above are true**

J. Securities are highly liquid and can be sold quickly if the bank needs cash, that's why these are also called:

- a. Primary reserves
- b. **Secondary reserves**
- c. Excess reserves
- d. None of the given options

K. Cash has a high opportunity cost because:

- a. **It earns no interest**
- b. It earns less interest
- c. It earns more interest
- d. Both B & C

L. The net worth of banks is known as the:

- a. **Bank capital**
- b. Bank liability
- c. Bank assets
- d. Bank profit

M. \_\_\_\_\_ is a measure of how efficiently a particular bank uses its assets:

- a. **Return on assets**
- b. Return on equity
- c. Return on bonds
- d. None of the given options

N. If return on equity is higher for larger banks then it shows the existence of:

- a. Economies of scope
- b. **Economies of scale**
- c. Diseconomies of scale
- d. All of the given options