1. **Multiple Choice**

1. Which of the following is an accurate statement about the adverse selection and moral hazard problems that can be associated with a financial transaction?
   A. Both moral hazard and adverse selection occur before a financial transaction is consummated.
   B. Adverse selection occurs before a financial transaction has been consummated while moral hazard occurs afterward.
   C. Moral hazard occurs before a financial transaction has been consummated while adverse selection occurs afterward.
   D. Both moral hazard and adverse selection occur after a financial transaction is consummated.

2. Which one of the following statements about financial intermediaries is *not* true?
   A. For the most part, financial intermediaries have real assets on the left-hand side of their balance sheets but have financial instruments on the right-hand side.
   B. Financial intermediaries can invest in either traded or nontraded financial contracts.
   C. Indirect finance is associated with financial intermediaries.
   D. Financial intermediaries act as go-betweens in funneling funds from saver-lenders to borrower-spenders.

3. Which one of the following *best* describes Regulation Q?
   A. It imposed price controls on deposit rates.
   B. It imposed restrictions on savings and loan associations in terms of what types of assets they could invest in.
   C. It imposed historical cost accounting on savings and loan associations.
   D. It substantially limited money market mutual funds to investing in Treasury bills and commercial paper.

4. Which one of the following *is not* an accurate statement about commercial paper?
   A. Commercial bank lending to large corporations declines as a result of the rapid increase in commercial paper issuance in the 1980s and 1990s.
   B. Commercial paper issuance grew rapidly as a result of the popularity of the money market mutual fund because of the need to employ the rapid inflow of money into these funds.
   C. The migration of corporate financing from short-term bank notes to commercial paper represented a shift from nontraded loans to traded commercial paper.
   D. The commercial paper market suffered a big setback because it was a favorite investment of the failed savings and loan associations.

5. Institutionalization of the financial market refers to __.
   A. the fact that bank certifications of deposits are typically purchased by financial institutions
   B. the fact that a larger fraction of traded stocks are owned by financial intermediaries than in the past
   C. the fact that a larger fraction of nontraded financial instruments are purchased by financial intermediaries than at any other time in history
   D. the fact that companies depend more on financial institutions than in the past to underwrite their securities
6. In a defined contribution pension plan, __.
   A. the pensioner’s benefits depend on the performance of the plan’s assets
   B. the pensioner’s benefits are fixed
   C. the pensioner’s benefits are linked to the consumer price index
   D. the pensioner’s benefits depend on the performance of the sponsoring company

7. Over the past half-century, commercial bank assets in the U.S. have __.
   A. increased in nominal terms and decreased relative to other financial intermediaries
   B. increased in nominal terms and increased relative to other financial intermediaries
   C. decreased in nominal terms and decreased relative to other financial intermediaries
   D. decreased in nominal terms and increased relative to other financial intermediaries

8. A bank might match the maturities of its assets and liabilities to __.
   A. eliminate operational risk
   B. eliminate credit risk
   C. eliminate interest rate risk
   D. eliminate fiduciary risk

9. Which of the following is not a depository financial intermediary?
   A. credit union
   B. savings and loan association
   C. mutual savings bank
   D. commercial finance company

10. Which one of the following is least likely to represent a major fraction of a life insurance company’s assets?
    A. commercial paper
    B. long-term U.S. government bonds
    C. commercial real estate mortgages
    D. stock

11. Economists consider a bank __.
    A. a utility
    B. an externality
    C. a resource
    D. a business

12. A bank ______ money.
    A. recycles
    B. repackages
    C. restores
    D. redistributes

13. The ceilings that once existed on the deposit rates depository institutions could pay were specified in ____.
    A. the McFadden Act
    B. the Edge Act
    C. Regulation Y
    D. Regulation Q
14. When a depository institution borrows by issuing a tradable instrument backed by some of its nontraded loans, this is called __.
   A. repackaging
   B. securitization
   C. a repurchase agreement
   D. mortgaging

15. “Net interest margin” is equal to net interest income __.
   A. divided by total assets
   B. divided by total liabilities
   C. minus operating expenses
   D. minus income paid on deposits

16. An ROA greater than ___ percent is considered good performance by a depository institution.
   A. 20
   B. 10
   C. 5
   D. 1

17. The raising of funds by issuing debt gives rise to ______ risk.
   A. credit
   B. trading
   C. leverage
   D. interest rate

18. A great trade-off in banking is that trying for higher profitability also means _____.
   A. higher liquidity
   B. taking on more risk
   C. bearing greater operating expenses
   D. branching into more locations

19. The risk that comes from mismatched maturities is called ___ risk.
   A. interest rate
   B. credit
   C. leverage
   D. liquidity

20. The most common measure of interest rate risk is the __.
   A. charge-off ratio
   B. one-year repricing GAP
   C. net interest margin
   D. leverage ratio

21. DEaR is a measure of ___ risk.
   A. leverage
   B. credit
   C. liquidity
   D. trading
22. The ratio of a bank’s equity to its total assets is a measure of its ___ risk.
   A. credit
   B. interest rate
   C. leverage
   D. trading

23. The ratio of cash and government securities to total assets is ___ considered a good measure of a bank’s ___ risk.
   A. still, interest rate
   B. still liquidity
   C. no longer, interest rate
   D. no longer, liquidity

24. The _____ Act put an end to interstate branching banking for a while.
   A. Garn-St. Germain
   B. Financial Markets Stabilization
   C. McFadden
   D. Edge

25. One of the loopholes punched through the prohibition of interstate banking was that ___ were allowed to buy out banks in multiple states.
   A. Edge Act subsidiaries
   B. bank holding companies
   C. mutual savings banks
   D. all banks below a certain size

26. From 1980 to 1994, the number of “independent banking organizations” in the U.S. ___.
   A. rose by 12%
   B. stayed roughly constant
   C. fell by 12%
   D. fell by 36%

27. Economies of scale appear to exist for banks with __ in assets.
   A. over $100,000,000
   B. less than $100,000,000
   C. over $500,000,000
   D. less than $500,000,000

28. The Glass-Steagall Act ___.
   A. prevented banks from underwriting domestic corporate debt and equity
   B. prevented bank holding companies from issuing commercial paper
   C. allowed banks to open “loan production offices” in other states
   D. allowed interstate banking on a regional-reciprocity basis

29. Issuing “letters of credit” is an example of ______ activity for a bank
   A. a loan production
   B. an off-balance-sheet
   C. an investment banking
   D. an Edge Act
30. Since 1978 in the U.S., foreign-owned banks have been __.
   A. subject to the same regulations as domestic banks
   B. forbidden to open any more branches or buy other banks in the U.S.
   C. allowed to underwrite domestic securities while domestic banks still cannot
   D. forced to sell off branches that would otherwise not be allowed by federal or state laws