Name:________________

I. Multiple Choice

1. Which of the following is not an asset of commercial banks?
   A. business loans
   B. U.S. government securities
   C. stocks
   D. mortgages

2. The largest liability of commercial banks is __.
   A. transactions deposits
   B. equity capital
   C. nontransactions deposits
   D. borrowed funds

3. Which one of the following best describes securitization?
   A. Securitization involves the issuance by banks of negotiable CDs that can be traded in the secondary market as if they were securities.
   B. Securitization involves the transformation of a nontraded instrument into a traded security.
   C. Securitization involves the issuance of equity securities by commercial banks or other financial institutions.
   D. Securitization in banking refers to the set of management tools that are designed to minimize bank risk by making deposits more secure for investors.

4. Which one of the following ratios is the best measure of the difference between what a bank earns on its assets and pays for its funds?
   A. return on equity (ROE)
   B. loan-to-deposit ratio
   C. return on assets (ROA)
   D. net interest margin (NIM)

5. Daily earnings at risk (DEaR) is a measure of __.
   A. trading risk
   B. credit risk
   C. fiduciary risk
   D. liquidity risk

6. A bank with assets of $1 billion, profits of $10 million, and net interest income of $40 billion as $120 million of assets that will be repriced in less than one year and $70 million of liabilities that will be repriced in less than one year. What is this bank’s GAP ratio?
   A. 12%
   B. 7%
   C. 500%
   D. 5%
7. Until relatively recently, interstate banking in the U.S. was effectively prohibited by which one of the following laws?
   A. Edge Act
   B. Reigle-Neil Act
   C. McFadden Act
   D. Glass-Steagall Act

8. Economics of scope is best defined as __.
   A. a condition in which average unit cost declines as more products are produced
   B. a condition in which average unit cost declines when the institution gets larger
   C. a condition in which larger institutions that sell multiple products enjoy the economies of a larger market share
   D. a condition in which larger institutions enjoy the economics of larger market share

9. The evidence of banking in the U.S. suggests that __.
   A. there are economies of scale at all bank size levels
   B. there are diseconomies of scale at all bank levels
   C. economies of scale disappear at the regional bank size level, about $5 billion in asset size
   D. there are no economies of scale at any bank size level

10. Which one of the following best describes the currently regulatory condition with respect to banks underwriting corporate securities?
    A. Banks are restricted in terms of underwriting corporate securities.
    B. Banks are restricted to underwriting corporate securities in an investment banking subsidiary.
    C. Banks are prohibited from underwriting corporate securities.
    D. Banks are restricted to underwriting corporate securities in an investment banking subsidiary below a specified level of volume.

II. Fill in the Blank
11. A “small” business is defined by the textbook authors as having less than $10 million in assets.

12. A firm usually likes to have a line of credit because it gives the firm flexibility in borrowing, savings the firm time and guards against credit rationing by the bank.

13. A small business owner seeking out a bank to borrow from turns to her accountant or lawyer who recommends certain loan officers to approach.

14. Inside collateral are assets of a firm that are pledged as security on a bank loan.
15. Many business loans include conditions disallowing certain actions by the borrower. These conditions are called restrictive covenants.

16. A main characteristic of “mid-sized” businesses is that they are large enough not to be dependent upon banks but not large enough to issue publicly-traded debt.

17. A private placement rather than a public sale of debt allows a firm to avoid the high cost of registering the debt with the SEC.

18. Compared to a private placement, a traded corporate bond has a higher liquidity and a lower interest rate.

19. Particularly large buyers of commercial paper are money market mutual funds.

20. Restrictive covenants are designed to combat the moral hazard form of the asymmetric information problem.