

# **Test Bank for Financial Markets and Institutions 10th Mishkin**

***Financial Markets and Institutions, 10e (Mishkin)***  
**Chapter 1 Why Study Financial Markets and Institutions?**

**1.1 Multiple Choice Questions**

- 1) Financial markets and institutions  
A) involve the movement of huge quantities of money.  
B) affect the profits of businesses.  
C) affect the types of goods and services produced in an economy.  
D) do all of the above.  
E) do only A and B of the above.

Answer: D

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

- 2) Financial market activities affect  
A) personal wealth.  
B) spending decisions by individuals and business firms.  
C) the economy's location in the business cycle.  
D) all of the above.

Answer: D

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

- 3) Markets in which funds are transferred from those who have excess funds available to those who have a shortage of available funds are called  
A) commodity markets.  
B) funds markets.  
C) derivative exchange markets.  
D) financial markets.

Answer: D

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

- 4) The price paid for the rental of borrowed funds (usually expressed as a percentage of the rental of \$100 per year) is commonly referred to as the  
A) inflation rate.  
B) exchange rate.  
C) interest rate.  
D) aggregate price level.

Answer: C

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

- 5) The bond markets are important because
- A) they are easily the most widely followed financial markets in the United States.
  - B) they are the markets where interest rates are determined.
  - C) they are the markets where foreign exchange rates are determined.
  - D) all of the above.

Answer: B

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

- 6) Interest rates are important to financial institutions since an interest rate increase \_\_\_\_\_ the cost of acquiring funds and \_\_\_\_\_ the income from assets.
- A) decreases; decreases
  - B) increases; increases
  - C) decreases; increases
  - D) increases; decreases

Answer: B

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

- 7) Typically, increasing interest rates
- A) discourages individuals from saving.
  - B) discourages corporate investments.
  - C) encourages corporate expansion.
  - D) encourages corporate borrowing.
  - E) none of the above.

Answer: B

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

- 8) Compared to interest rates on long-term U.S. government bonds, interest rates on \_\_\_\_\_ fluctuate more and are lower on average.
- A) medium-quality corporate bonds
  - B) low-quality corporate bonds
  - C) high-quality corporate bonds
  - D) three-month Treasury bills
  - E) none of the above

Answer: D

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

9) Compared to interest rates on long-term U.S. government bonds, interest rates on three-month Treasury bills fluctuate \_\_\_\_\_ and are \_\_\_\_\_ on average.

- A) more; lower
- B) less; lower
- C) more; higher
- D) less; higher

Answer: A

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

10) The stock market is important because

- A) it is where interest rates are determined.
- B) it is the most widely followed financial market in the United States.
- C) it is where foreign exchange rates are determined.
- D) all of the above.

Answer: B

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

11) Stock prices since the 1980s have been

- A) relatively stable, trending upward at a steady pace.
- B) relatively stable, trending downward at a moderate rate.
- C) extremely volatile.
- D) unstable, trending downward at a moderate rate.

Answer: C

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

12) The largest one-day drop in the history of the American stock markets occurred in

- A) 1929.
- B) 1987.
- C) 2000.
- D) 2001.

Answer: B

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

13) A declining stock market index due to lower share prices

- A) reduces people's wealth and as a result may reduce their willingness to spend.
- B) increases people's wealth and as a result may increase their willingness to spend.
- C) decreases the amount of funds that business firms can raise by selling newly issued stock.
- D) both A and C of the above.
- E) both B and C of the above.

Answer: D

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

14) Changes in stock prices

- A) affect people's wealth and their willingness to spend.
- B) affect firms' decisions to sell stock to finance investment spending.
- C) are characterized by considerable fluctuations.
- D) all of the above.
- E) only A and B of the above.

Answer: D

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

15) (I) Debt markets are often referred to generically as the bond market.

(II) A bond is a security that is a claim on the earnings and assets of a corporation.

- A) (I) is true, (II) false.
- B) (I) is false, (II) true.
- C) Both (I) and (II) are true.
- D) Both (I) and (II) are false.

Answer: A

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

16) (I) A bond is a debt security that promises to make payments periodically for a specified period of time.

(II) A stock is a security that is a claim on the earnings and assets of a corporation.

- A) (I) is true, (II) false.
- B) (I) is false, (II) true.
- C) Both (I) and (II) are true.
- D) Both (I) and (II) are false.

Answer: C

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

17) The price of one country's currency in terms of another's is called

- A) the foreign exchange rate.
- B) the interest rate.
- C) the Dow Jones industrial average.
- D) none of the above.

Answer: A

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

18) A stronger dollar benefits \_\_\_\_\_ and hurts \_\_\_\_\_.

- A) American businesses; American consumers
- B) American businesses; foreign businesses
- C) American consumers; American businesses
- D) foreign businesses; American consumers

Answer: C

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

19) A weaker dollar benefits \_\_\_\_\_ and hurts \_\_\_\_\_.

- A) American businesses; American consumers
- B) American businesses; foreign consumers
- C) American consumers; American businesses
- D) foreign businesses; American consumers

Answer: A

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

20) From 1980 to early 1985 the dollar \_\_\_\_\_ in value, thereby benefiting American \_\_\_\_\_.

- A) appreciated; businesses
- B) appreciated; consumers
- C) depreciated; businesses
- D) depreciated; consumers

Answer: B

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

21) For most of 2010-2015, Three Month Treasury Bill rates were near

- A) 0%.
- B) 3%.
- C) 5%.
- D) 6%.

Answer: A

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

22) In general, from 2001 through 2013, the dollar \_\_\_\_\_ in value relative to major foreign currencies.

- A) appreciated
- B) depreciated
- C) remained about the same

Answer: B

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

23) Between 1950 and 2016, Treasury Bill rates peaked near

- A) 1961.
- B) 1972.
- C) 1981.
- D) 1995.

Answer: C

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

24) Money is defined as

- A) anything that is generally accepted in payment for goods and services or in the repayment of debt.
- B) bills of exchange.
- C) a riskless repository of spending power.
- D) all of the above.
- E) only A and B of the above.

Answer: A

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

25) During the Financial Crisis of 2007-2009, the Dow Jones Industrial Average fell to a low near

- A) 5,200.
- B) 6,600.
- C) 8,900.
- D) 10,500.

Answer: B

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

26) From "Black Monday" on October 19, 1987, until 2000, the stock market experienced one of the great bull markets in its history, with the Dow climbing to a peak of over

- A) 5,000.
- B) 7,000.
- C) 9,000.
- D) 11,000.

Answer: D

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

- 27) Between 1970 and 2016, the value of the U.S. dollar relative to other currencies peaked near
- A) 1975.
  - B) 1985.
  - C) 1995.
  - D) 2005.

Answer: B

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

- 28) Interest rates are determined in the
- A) real asset market.
  - B) stock market.
  - C) bond market.
  - D) foreign exchange market.

Answer: C

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

- 29) Which of the following interest rates is typically the highest?
- A) Corporate bonds
  - B) Three-month Treasury bills
  - C) U.S. Government Long-Term Bonds
  - D) Savings accounts

Answer: A

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

- 30) The stock market is characterized by \_\_\_\_\_ volatility relative to the bond market but it also typically has a \_\_\_\_\_ return.
- A) higher; lower
  - B) lower; higher
  - C) lower; lower
  - D) higher; higher

Answer: D

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

- 31) \_\_\_\_\_ refers to the single largest one-day decline in the Dow Jones Industrial Average that occurred on October 19, 1987.
- A) Big killing
  - B) Black Monday
  - C) Black swan
  - D) The Great Recession

Answer: B

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

32) When the U.S. dollar appreciates relative to the Japanese yen it

- A) makes U.S. goods cheaper to Japanese consumers.
- B) makes Japanese goods more expensive to U.S. consumers.
- C) makes Japanese goods cheaper to U.S. consumers.
- D) has no impact on the prices of goods to either country.

Answer: C

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

33) The organization responsible for the conduct of monetary policy in the United States is the

- A) Comptroller of the Currency.
- B) U.S. Treasury.
- C) Federal Reserve System.
- D) Bureau of Monetary Affairs.

Answer: C

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

34) The central bank of the United States is

- A) Citicorp.
- B) The Fed.
- C) Bank of America.
- D) The Treasury.
- E) none of the above.

Answer: B

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

35) Monetary policy is chiefly concerned with

- A) how much money businesses earn.
- B) the level of interest rates and the nation's money supply.
- C) how much money people pay in taxes.
- D) whether people have saved enough money for retirement.

Answer: B

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

36) In the good old days, when you took cash out of the bank or wanted to check your account balance, you got to say hello to a friendly human. Nowadays, you are more likely to interact with a(n) \_\_\_\_\_ when withdrawing cash.

- A) automatic teller machine (ATM)
- B) federal reserve employee
- C) robot banker
- D) investment banker

Answer: A

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: New Question

37) Economists group commercial banks, savings and loan associations, credit unions, mutual funds, mutual savings banks, insurance companies, pension funds, and finance companies together under the heading financial intermediaries. Financial intermediaries

A) act as middlemen, borrowing funds from those who have saved and lending these funds to others.

B) produce nothing of value and are therefore a drain on society's resources.

C) help promote a more efficient and dynamic economy.

D) do all of the above.

E) do only A and C of the above.

Answer: E

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

38) Economists group commercial banks, savings and loan associations, credit unions, mutual funds, mutual savings banks, insurance companies, pension funds, and finance companies together under the heading financial intermediaries. Financial intermediaries

A) act as middlemen, borrowing funds from those who have saved and lending these funds to others.

B) play an important role in determining the quantity of money in the economy.

C) help promote a more efficient and dynamic economy.

D) do all of the above.

E) do only A and C of the above.

Answer: D

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

39) Banks are important to the study of money and the economy because they

A) provide a channel for linking those who want to save with those who want to invest.

B) have been a source of financial innovation that is expanding the alternatives available to those wanting to invest their money.

C) are the only financial institution to play a role in determining the quantity of money in the economy.

D) do all of the above.

E) do only A and B of the above.

Answer: E

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

40) Banks, savings and loan associations, mutual savings banks, and credit unions

A) are no longer important players in financial intermediation.

B) have been providing services only to small depositors since deregulation.

C) have been adept at innovating in response to changes in the regulatory environment.

D) all of the above.

E) only A and C of the above.

Answer: C

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

41) (I) Banks are financial intermediaries that accept deposits and make loans.  
(II) The term "banks" includes firms such as commercial banks, savings and loan associations, mutual savings banks, credit unions, insurance companies, and pension funds.

- A) (I) is true, (II) false.
- B) (I) is false, (II) true.
- C) Both (I) and (II) are true.
- D) Both (I) and (II) are false.

Answer: A

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

42) \_\_\_\_\_ was the worst financial crisis in U.S. history.

- A) Black Monday
- B) The Great Depression
- C) The Great Recession
- D) None of the above

Answer: B

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

43) The largest financial intermediaries are

- A) insurance companies.
- B) finance companies.
- C) banks.
- D) all of the above.

Answer: C

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

44) In recent years

- A) interest rates have remained constant.
- B) the success of financial institutions has reached levels unprecedented since the Great Depression.
- C) stock markets have been very volatile.
- D) all of the above.

Answer: C

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

45) A security

- A) is a claim or price of property that is subject to ownership.
- B) promises that payments will be made periodically for a specified period of time.
- C) is the price paid for the usage of funds.
- D) is a claim on the issuers future income.

Answer: D

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

46) \_\_\_\_\_ are an example of a financial institution.

- A) Banks
- B) Insurance companies
- C) Finance companies
- D) All of the above

Answer: D

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

47) Monetary policy affects

- A) interest rates.
- B) inflation.
- C) business cycles.
- D) all of the above.

Answer: D

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

48) A rising stock market index due to higher share prices

- A) increases people's wealth and as a result may increase their willingness to spend.
- B) increases the amount of funds that business firms can raise by selling newly issued stock.
- C) decreases the amount of funds that business firms can raise by selling newly issued stock.
- D) both A and B of the above.

Answer: D

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

49) From the peak of the high-tech bubble in 2000, the stock market \_\_\_\_\_ by over \_\_\_\_\_ by late 2002.

- A) collapsed; 75%
- B) rose; 35%
- C) collapsed; 30%
- D) rose; 50%

Answer: C

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

50) The Dow fell below 7,000 in 2009, only to start a bull market run, reaching new highs near \_\_\_\_\_ in 2016.

- A) 12,000
- B) 10,000
- C) 15,000
- D) 18,000

Answer: D

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Updated from Previous Edition

51) \_\_\_\_\_ are major disruptions in the financial markets that result in sharp declines in asset prices.

- A) Financial crises
- B) Recessions
- C) Currency appreciations
- D) None of the above

Answer: A

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: New Question

52) Financial crises are typically followed by

- A) rapid increases in asset prices.
- B) serious business cycle downturns.
- C) higher returns to financial institutions.
- D) an increase in the stock market.

Answer: B

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: New Question

53) \_\_\_\_\_ are a form of electronic cash that uses blockchain technology to process transactions that occur outside of a central banking system.

- A) Bond interest payments
- B) Money supplies
- C) Cryptocurrencies
- D) Foreign exchanges

Answer: C

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: New Question

54) Which of these is NOT one of the functions of money?

- A) Medium of exchange
- B) Unit of account
- C) Store of value
- D) Method of wealth accumulation

Answer: D

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: New Question

55) Financial innovation has resulted in the creation of technologies and products that allow financial institutions to provide services electronically which is called

- A) Bitcoin.
- B) cryptocurrency.
- C) e-finance.
- D) financial marketing.

Answer: C

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: New Question

## 1.2 True/False Questions

1) Money is anything accepted by anyone as payment for services or goods.

Answer: TRUE

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

2) Interest rates are determined in the bond markets.

Answer: TRUE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

3) A stock is a debt security that promises to make periodic payments for a specific period of time.

Answer: FALSE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

4) Monetary policy affects interest rates but has little effect on inflation or business cycles.

Answer: FALSE

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

5) The government organization responsible for the conduct of monetary policy in the United States is the U.S. Treasury.

Answer: FALSE

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

6) Interest rates can be accurately described as the rental price of money.

Answer: TRUE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

7) Holding everything else constant, as the dollar weakens vacations abroad become less attractive.

Answer: TRUE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

8) In recent years, financial markets have become more stable and less risky.

Answer: FALSE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

9) Financial innovation has provided more options to both investors and borrowers.

Answer: TRUE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

10) A financial intermediary borrows funds from people who have saved.

Answer: TRUE

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

11) From 2001 to 2008, the dollar depreciated substantially.

Answer: TRUE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

12) From 2007 to 2009, the U.S. economy was hit by the worst financial crisis since the Great Depression.

Answer: TRUE

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: New Question

13) Holding everything else constant, as the dollar strengthens foreigners will buy more U.S. exports.

Answer: FALSE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

14) In a bull market stock prices are rising, on average.

Answer: TRUE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

15) In a bear market stock prices are rising, on average.

Answer: FALSE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

16) Financial institutions are among the largest employers in the country and frequently pay very high salaries.

Answer: TRUE

Topic: Chapter 1.3 Applied Managerial Perspective

Question Status: Previous Edition

17) Different interest rates have a tendency to move in unison.

Answer: TRUE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

18) Financial markets are what makes financial institutions work.

Answer: FALSE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

19) In recent years, financial markets have become more risky. However, only a limited number of tools (such as derivatives) are available to assist in managing this risk.

Answer: FALSE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

20) Although the internet has changed many aspects of our lives, it hasn't proven very useful for collecting and/or analyzing financial and economic data.

Answer: FALSE

Topic: Chapter 1.4 How We Will Study Financial Markets and Institutions

Question Status: Previous Edition

21) Currency fluctuations have limited impact on imports and exports.

Answer: FALSE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

22) Currency conversions take place in the foreign exchange market.

Answer: TRUE

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

23) Financial crises typically only affect financial institutions.

Answer: FALSE

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: New Question

24) The financial crises of 2007-2009 was caused by high default rates in subprime residential mortgages.

Answer: TRUE

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: New Question

25) The most important financial institution in the financial system is the Federal Deposit Insurance Corporation.

Answer: FALSE

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: New Question

### 1.3 Essay Questions

1) Have interest rates been more or less volatile in recent years? Why?

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

2) Why should consumers be concerned with movements in foreign exchange rates?

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

3) How does the value of the dollar affect the competitiveness of American businesses?

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

4) What is monetary policy and who is responsible for its implementation?

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

5) What are financial intermediaries and what do they do?

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

6) What is money?

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

7) How does a bond differ from a stock?

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

8) Why is the stock market so important to individuals, firms, and the economy?

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

9) What is the central bank and what does it do?

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: Previous Edition

10) If you are planning a vacation to Europe, do you prefer a strong dollar or weak dollar relative to the euro? Why?

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: Previous Edition

11) How has the stock market performed since 2000?

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question

12) Briefly explain why cryptocurrency does not satisfy the conditions to be considered money.

Topic: Chapter 1.2 Why Study Financial Institutions?

Question Status: New Question

13) What is the difference between a stock and a bond?

Topic: Chapter 1.1 Why Study Financial Markets?

Question Status: New Question