

## ECON UN3265: Money and Banking

Summer 2026 — Practice Quiz

### Chapter 1 — Practice Quiz

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**How to use this quiz.** These 30 questions are the complete pool for Chapter 1. The in-class quiz is a random subset of exactly these questions. Work through them after the reading; the answer key is on the last page.

#### Questions

1. Well-functioning financial markets promote *[TB 1.1.3]*
  - A) inflation
  - B) deflation
  - C) unemployment
  - D) growth
  
2. Markets in which funds are transferred from those who have excess funds available to those who have a shortage of available funds are called *[TB 1.1.5]*
  - A) commodity markets
  - B) fund-available markets
  - C) derivative exchange markets
  - D) financial markets
  
3. Poorly performing financial markets can be the cause of *[TB 1.1.7]*
  - A) wealth
  - B) poverty
  - C) financial stability
  - D) financial expansion
  
4. The bond markets are important because they are *[TB 1.1.8]*
  - A) the most widely followed financial markets in the United States
  - B) the markets where foreign exchange rates are determined
  - C) the markets where interest rates are determined
  - D) the markets where all borrowers get their funds
  
5. 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 *[TB 1.1.9]*

- A) inflation rate
  - B) exchange rate
  - C) interest rate
  - D) aggregate price level
6. The interest rate on Baa corporate bonds is \_\_\_\_, on average, than interest rates on Treasuries, and the spread between these rates became \_\_\_\_ in the 1970s. [TB 1.1.11]
- A) lower; smaller
  - B) lower; larger
  - C) higher; smaller
  - D) higher; larger
7. The stock market is [TB 1.1.17]
- A) where interest rates are determined
  - B) the most widely followed financial market in the United States
  - C) where foreign exchange rates are determined
  - D) the market where most borrowers get their funds
8. Stock prices are [TB 1.1.18]
- 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
9. A share of common stock is a claim on a corporation's [TB 1.1.25]
- A) debt
  - B) liabilities
  - C) expenses
  - D) earnings and assets
10. On “\_\_\_\_,” October 19, 1987, the stock market experienced its worst one-day drop in its entire history, with the DJIA falling by 22%. [TB 1.1.26]
- A) Terrible Tuesday
  - B) Woeful Wednesday

- C) Freaky Friday
  - D) Black Monday
11. When I purchase a corporate \_\_\_\_, I am lending the corporation funds for a specific time. When I purchase a corporation's \_\_\_\_, I become an owner in the corporation. *[TB 1.1.29]*
- A) bond; stock
  - B) stock; bond
  - C) stock; debt security
  - D) bond; debt security
12. Channeling funds from individuals with surplus funds to those desiring funds when the saver does not purchase the borrower's security is known as *[TB 1.2.1]*
- A) barter
  - B) redistribution
  - C) financial intermediation
  - D) taxation
13. Financial institutions that accept deposits and make loans are called *[TB 1.2.8]*
- A) exchanges
  - B) banks
  - C) over-the-counter markets
  - D) finance companies
14. Which of the following is NOT a financial institution? *[TB 1.2.10]*
- A) a life insurance company
  - B) a pension fund
  - C) a credit union
  - D) a business college
15. The delivery of financial services electronically is called *[TB 1.2.11]*
- A) e-business
  - B) e-commerce
  - C) e-finance
  - D) e-possible
16. Money is defined as *[TB 1.3.1]*

- A) bills of exchange
  - B) anything that is generally accepted in payment for goods or services or in the repayment of debt
  - C) a risk-free repository of spending power
  - D) the unrecognized liability of governments
17. The upward and downward movement of aggregate output produced in the economy is referred to as the *[TB 1.3.2]*
- A) roller coaster
  - B) see saw
  - C) business cycle
  - D) shock wave
18. Sustained downward movements in the business cycle are referred to as *[TB 1.3.3]*
- A) inflation
  - B) recessions
  - C) economic recoveries
  - D) expansions
19. Evidence from business cycle fluctuations in the United States indicates that *[TB 1.3.6]*
- A) a negative relationship between money growth and general economic activity exists
  - B) recessions are usually preceded by declines in bond prices
  - C) recessions are usually preceded by dollar depreciation
  - D) recessions are usually preceded by a decline in the growth rate of money
20. \_\_\_\_ theory relates the quantity of money and monetary policy to changes in aggregate economic activity and inflation. *[TB 1.3.7]*
- A) Monetary
  - B) Fiscal
  - C) Financial
  - D) Systemic
21. Complete Milton Friedman's famous statement, "Inflation is always and everywhere a \_\_\_\_ phenomenon." *[TB 1.3.13]*
- A) recessionary
  - B) discretionary

- C) repressinary  
D) monetary
22. The management of money and interest rates is called \_\_\_\_ policy and is conducted by a nation's \_\_\_\_ bank. *[TB 1.3.18]*
- A) monetary; superior  
B) fiscal; superior  
C) fiscal; central  
D) monetary; central
23. The price of one country's currency in terms of another country's currency is called the *[TB 1.4.2]*
- A) exchange rate  
B) interest rate  
C) Dow Jones Industrial Average  
D) prime rate
24. The market where one currency is converted into another currency is called the \_\_\_\_ market. *[TB 1.4.3]*
- A) stock  
B) bond  
C) derivatives  
D) foreign exchange
25. Everything else held constant, a stronger dollar benefits \_\_\_\_ and hurts \_\_\_\_\_. *[TB 1.4.7]*
- A) American businesses; American consumers  
B) American businesses; foreign businesses  
C) American consumers; American businesses  
D) foreign businesses; American consumers
26. The gross domestic product is *[TB 1.7.2]*
- A) the value of all wealth in an economy  
B) the value of all goods and services sold to other nations in a year  
C) the market value of all final goods and services produced in an economy in a year  
D) the market value of all intermediate goods and services produced in an economy in a year

27. If an economy has aggregate output of \$20 trillion, then aggregate income is *[TB 1.7.4]*
- A) \$10 trillion
  - B) \$20 trillion
  - C) \$30 trillion
  - D) \$40 trillion
28. When the total value of final goods and services is calculated using current prices, the resulting measure is referred to as *[TB 1.7.5]*
- A) real GDP
  - B) the GDP deflator
  - C) nominal GDP
  - D) the index of leading indicators
29. The measure of the aggregate price level that is most frequently reported in the media is the *[TB 1.7.13]*
- A) GDP deflator
  - B) producer price index
  - C) consumer price index
  - D) household price index
30. If real GDP grows from \$10 trillion in 2002 to \$10.5 trillion in 2003, the growth rate for real GDP is *[TB 1.7.16]*
- A) 5%
  - B) 10%
  - C) 50%
  - D) 0.5%

## Answer Key

1. D (TB 1.1.3)   2. D (TB 1.1.5)   3. B (TB 1.1.7)   4. C (TB 1.1.8)   5. C (TB 1.1.9)   6. D (TB 1.1.11)  
7. B (TB 1.1.17)   8. C (TB 1.1.18)   9. D (TB 1.1.25)   10. D (TB 1.1.26)   11. A (TB 1.1.29)   12. C (TB  
1.2.1)   13. B (TB 1.2.8)   14. D (TB 1.2.10)   15. C (TB 1.2.11)   16. B (TB 1.3.1)   17. C (TB 1.3.2)   18. B  
(TB 1.3.3)   19. D (TB 1.3.6)   20. A (TB 1.3.7)   21. D (TB 1.3.13)   22. D (TB 1.3.18)   23. A (TB 1.4.2)  
24. D (TB 1.4.3)   25. C (TB 1.4.7)   26. C (TB 1.7.2)   27. B (TB 1.7.4)   28. C (TB 1.7.5)   29. C (TB  
1.7.13)   30. A (TB 1.7.16)