

ECON UN3265: Money and Banking

Summer 2026 — Practice Quiz

Chapter 2 — Practice Quiz

How to use this quiz. These 30 questions are the complete pool for Chapter 2. 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. Every financial market has the following characteristic: *[TB 2.1.1]*
 - A) It determines the level of interest rates.
 - B) It allows common stock to be traded.
 - C) It allows loans to be made.
 - D) It channels funds from lender-savers to borrower-spenders.

2. Financial markets improve economic welfare because *[TB 2.1.3]*
 - A) they channel funds from investors to savers
 - B) they allow consumers to time their purchases better
 - C) they weed out inefficient firms
 - D) they eliminate the need for indirect finance

3. A breakdown of financial markets can result in *[TB 2.1.5]*
 - A) financial stability
 - B) rapid economic growth
 - C) political instability
 - D) stable prices

4. Which of the following can be described as direct finance? *[TB 2.1.7]*
 - A) You take out a mortgage from your local bank.
 - B) You borrow \$2,500 from a friend.
 - C) You buy shares of common stock in the secondary market.
 - D) You buy shares in a mutual fund.

5. Which of the following can be described as involving indirect finance? *[TB 2.1.12]*
 - A) You make a loan to your neighbor.

- B) A corporation buys a share of common stock issued by another corporation in the primary market.
 - C) You buy a U.S. Treasury bill from the U.S. Treasury at TreasuryDirect.gov.
 - D) You make a deposit at a bank.
6. With _____ finance, borrowers obtain funds from lenders by selling them securities in the financial markets. *[TB 2.1.15]*
- A) active
 - B) determined
 - C) indirect
 - D) direct
7. Which of the following statements about financial markets and securities is TRUE? *[TB 2.2.3]*
- A) A bond is a long-term security that promises to make periodic payments called dividends to the firm's residual claimants.
 - B) A debt instrument is intermediate term if its maturity is less than one year.
 - C) A debt instrument is intermediate term if its maturity is ten years or longer.
 - D) The maturity of a debt instrument is the number of years (term) to that instrument's expiration date.
8. Long-term debt has a maturity that is *[TB 2.2.6]*
- A) between one and ten years
 - B) less than a year
 - C) between five and ten years
 - D) ten years or longer
9. Equity holders are a corporation's _____. That means the corporation must pay all of its debt holders before it pays its equity holders. *[TB 2.2.8]*
- A) debtors
 - B) brokers
 - C) residual claimants
 - D) underwriters
10. A financial market in which previously issued securities can be resold is called a _____ market. *[TB 2.2.10]*
- A) primary

- B) secondary
 - C) tertiary
 - D) used securities
11. An important financial institution that assists in the initial sale of securities in the primary market is the *[TB 2.2.11]*
- A) investment bank
 - B) commercial bank
 - C) stock exchange
 - D) brokerage house
12. When an investment bank _____ securities, it guarantees a price for a corporation's securities and then sells them to the public. *[TB 2.2.12]*
- A) underwrites
 - B) undertakes
 - C) overwrites
 - D) overtakes
13. _____ work in the secondary markets matching buyers with sellers of securities. *[TB 2.2.14]*
- A) Dealers
 - B) Underwriters
 - C) Brokers
 - D) Claimants
14. A financial market in which only short-term debt instruments are traded is called the _____ market. *[TB 2.2.25]*
- A) bond
 - B) money
 - C) capital
 - D) stock
15. U.S. Treasury bills pay no interest but are sold at a _____; that is, you pay a lower purchase price than the amount you receive at maturity. *[TB 2.3.2]*
- A) premium
 - B) collateral
 - C) default

- D) discount
16. A debt instrument sold by a bank to its depositors that pays annual interest of a given amount and at maturity pays back the original purchase price is called *[TB 2.3.4]*
- A) commercial paper
 - B) a certificate of deposit
 - C) a municipal bond
 - D) federal funds
17. A short-term debt instrument issued by well-known corporations is called *[TB 2.3.5]*
- A) commercial paper
 - B) corporate bonds
 - C) municipal bonds
 - D) commercial mortgages
18. Federal funds are *[TB 2.3.8]*
- A) funds raised by the federal government in the bond market
 - B) loans made by the Federal Reserve System to banks
 - C) loans made by banks to the Federal Reserve System
 - D) loans made by banks to each other
19. Bonds issued by state and local governments are called _____ bonds. *[TB 2.3.14]*
- A) corporate
 - B) Treasury
 - C) municipal
 - D) commercial
20. Bonds that are sold in a foreign country and are denominated in the currency of the country in which they are sold are known as *[TB 2.4.3]*
- A) foreign bonds
 - B) Eurobonds
 - C) equity bonds
 - D) country bonds
21. Bonds that are sold in a foreign country and are denominated in a currency other than that of the country in which they are sold are known as *[TB 2.4.4]*

- A) foreign bonds
 - B) Eurobonds
 - C) equity bonds
 - D) country bonds
22. U.S. dollar deposits in foreign banks outside the U.S., or in foreign branches of U.S. banks, are called *[TB 2.4.6]*
- A) Atlantic dollars
 - B) Eurodollars
 - C) foreign dollars
 - D) outside dollars
23. The time and money spent in carrying out financial transactions are called *[TB 2.5.3]*
- A) economies of scale
 - B) financial intermediation
 - C) liquidity services
 - D) transaction costs
24. The process where financial intermediaries create and sell low-risk assets and use the proceeds to purchase riskier assets is known as *[TB 2.5.7]*
- A) risk sharing
 - B) risk aversion
 - C) risk neutrality
 - D) risk selling
25. Reducing risk through the purchase of assets whose returns do not always move together is *[TB 2.5.9]*
- A) diversification
 - B) intermediation
 - C) intervention
 - D) discounting
26. The problem created by asymmetric information before the transaction occurs is called _____, while the problem created after the transaction occurs is called _____. *[TB 2.5.14]*
- A) adverse selection; moral hazard
 - B) moral hazard; adverse selection

- C) costly state verification; free-riding
 - D) free-riding; costly state verification
27. Banks can lower the cost of information production by applying one information resource to many different services. This process is called *[TB 2.5.18]*
- A) economies of scale
 - B) asset transformation
 - C) economies of scope
 - D) asymmetric information
28. Financial institutions that accept deposits and make loans are called ____ institutions. *[TB 2.6.1]*
- A) investment
 - B) contractual savings
 - C) depository
 - D) underwriting
29. Thrift institutions include *[TB 2.6.2]*
- A) banks, mutual funds, and insurance companies
 - B) savings and loan associations, mutual savings banks, and credit unions
 - C) finance companies, mutual funds, and money market funds
 - D) pension funds, mutual funds, and banks
30. The primary purpose of deposit insurance is to *[TB 2.7.9]*
- A) improve the flow of information to investors
 - B) prevent banking panics
 - C) protect bank shareholders against losses
 - D) protect bank employees from unemployment

Answer Key

1. D (TB 2.1.1) 2. B (TB 2.1.3) 3. C (TB 2.1.5) 4. B (TB 2.1.7) 5. D (TB 2.1.12) 6. D (TB 2.1.15)
7. D (TB 2.2.3) 8. D (TB 2.2.6) 9. C (TB 2.2.8) 10. B (TB 2.2.10) 11. A (TB 2.2.11) 12. A (TB 2.2.12)
13. C (TB 2.2.14) 14. B (TB 2.2.25) 15. D (TB 2.3.2) 16. B (TB 2.3.4) 17. A (TB 2.3.5) 18. D (TB
2.3.8) 19. C (TB 2.3.14) 20. A (TB 2.4.3) 21. B (TB 2.4.4) 22. B (TB 2.4.6) 23. D (TB 2.5.3) 24. A
(TB 2.5.7) 25. A (TB 2.5.9) 26. A (TB 2.5.14) 27. C (TB 2.5.18) 28. C (TB 2.6.1) 29. B (TB 2.6.2)
30. B (TB 2.7.9)