

ECON UN3265: Money and Banking

Summer 2026 — Practice Quiz

Chapter 4 — Practice Quiz

How to use this quiz. These 30 questions are the complete pool for Chapter 4. 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. The concept of ____ is based on the common-sense notion that a dollar paid to you in the future is less valuable than a dollar today. *[TB 4.1.1]*
 - A) present value
 - B) future value
 - C) interest
 - D) deflation
2. The present value of an expected future payment ____ as the interest rate increases. *[TB 4.1.2]*
 - A) falls
 - B) rises
 - C) is constant
 - D) is unaffected
3. With an interest rate of 6 percent, the present value of \$100 to be received next year is approximately *[TB 4.1.4]*
 - A) \$106
 - B) \$100
 - C) \$94
 - D) \$92
4. What is the present value of \$500.00 to be paid in two years if the interest rate is 5 percent? *[TB 4.1.5]*
 - A) \$453.51
 - B) \$500.00
 - C) \$476.25
 - D) \$550.00

5. A credit market instrument that provides the borrower with an amount of funds that must be repaid at the maturity date along with an interest payment is known as a *[TB 4.1.8]*
- A) simple loan
 - B) fixed-payment loan
 - C) coupon bond
 - D) discount bond
6. A credit market instrument that requires the borrower to make the same payment every period until the maturity date is known as a *[TB 4.1.9]*
- A) simple loan
 - B) fixed-payment loan
 - C) coupon bond
 - D) discount bond
7. A credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called a *[TB 4.1.12]*
- A) simple loan
 - B) fixed-payment loan
 - C) coupon bond
 - D) discount bond
8. The dollar amount of the yearly coupon payment expressed as a percentage of the face value of the bond is called the bond's *[TB 4.1.16]*
- A) coupon rate
 - B) maturity rate
 - C) face value rate
 - D) payment rate
9. If a \$1,000 face value coupon bond has a coupon rate of 3.75 percent, then the coupon payment every year is *[TB 4.1.18]*
- A) \$37.50
 - B) \$3.75
 - C) \$375.00
 - D) \$13.75

10. A bond that is bought at a price below its face value and the face value is repaid at the maturity date is called a *[TB 4.1.23]*
- A) simple loan
 - B) fixed-payment loan
 - C) coupon bond
 - D) discount bond
11. The interest rate that equates the present value of payments received from a debt instrument with its value today is the *[TB 4.1.28]*
- A) simple interest rate
 - B) current yield
 - C) yield to maturity
 - D) real interest rate
12. Economists consider the _____ to be the most accurate measure of interest rates. *[TB 4.1.29]*
- A) simple interest rate
 - B) current yield
 - C) yield to maturity
 - D) nominal interest rate
13. The _____ of a coupon bond and the yield to maturity are inversely related. *[TB 4.1.38]*
- A) price
 - B) par value
 - C) maturity date
 - D) term
14. The _____ is defined as the payments to the owner plus the change in a security's value, expressed as a fraction of the security's purchase price. *[TB 4.2.1]*
- A) yield to maturity
 - B) current yield
 - C) rate of return
 - D) yield rate
15. Which of the following is TRUE concerning the distinction between interest rates and returns? *[TB 4.2.2]*
- A) The rate of return on a bond will not necessarily equal the interest rate on that bond.

- B) The return can be expressed as the difference between the current yield and the rate of capital gains.
- C) The rate of return will be greater than the interest rate when the price of the bond falls during the holding period.
- D) The return can be expressed as the sum of the discount yield and the rate of capital gains.
16. The sum of the current yield and the rate of capital gain is called the *[TB 4.2.3]*
- A) rate of return
- B) discount yield
- C) perpetuity yield
- D) par value
17. What is the return on a 5 percent coupon bond that initially sells for \$1,000 and sells for \$1,200 next year? *[TB 4.2.4]*
- A) 5 percent
- B) 10 percent
- C) -5 percent
- D) 25 percent
18. What is the return on a 5 percent coupon bond that initially sells for \$1,000 and sells for \$900 next year? *[TB 4.2.5]*
- A) 5 percent
- B) 10 percent
- C) -5 percent
- D) -10 percent
19. If the interest rates on all bonds rise from 5 to 6 percent over the course of the year, which bond would you prefer to have been holding? *[TB 4.2.19]*
- A) a bond with one year to maturity
- B) a bond with five years to maturity
- C) a bond with ten years to maturity
- D) a bond with twenty years to maturity
20. The riskiness of an asset's returns due to changes in interest rates is *[TB 4.2.24]*
- A) exchange-rate risk

- B) price risk
 - C) asset risk
 - D) interest-rate risk
21. Prices and returns for ____ bonds are more volatile than those for ____ bonds, everything else held constant. *[TB 4.2.26]*
- A) long-term; long-term
 - B) long-term; short-term
 - C) short-term; long-term
 - D) short-term; short-term
22. There is ____ for any bond whose time to maturity matches the holding period. *[TB 4.2.27]*
- A) no interest-rate risk
 - B) a large interest-rate risk
 - C) rate-of-return risk
 - D) yield-to-maturity risk
23. The ____ interest rate is adjusted for expected changes in the price level. *[TB 4.3.1]*
- A) ex ante real
 - B) ex post real
 - C) ex post nominal
 - D) ex ante nominal
24. The ____ interest rate more accurately reflects the true cost of borrowing. *[TB 4.3.2]*
- A) nominal
 - B) real
 - C) discount
 - D) market
25. The nominal interest rate minus the expected rate of inflation *[TB 4.3.3]*
- A) defines the real interest rate
 - B) is a less accurate measure of the incentives to borrow and lend than is the nominal interest rate
 - C) is a less accurate indicator of the tightness of credit market conditions than is the nominal interest rate

- D) defines the discount rate
26. The ____ states that the nominal interest rate equals the real interest rate plus the expected rate of inflation. *[TB 4.3.6]*
- A) Fisher equation
 - B) Keynesian equation
 - C) Monetarist equation
 - D) Marshall equation
27. If the nominal rate of interest is 2 percent, and the expected inflation rate is -10 percent, the real rate of interest is *[TB 4.3.7]*
- A) 2 percent
 - B) 8 percent
 - C) 10 percent
 - D) 12 percent
28. In which of the following situations would you prefer to be the lender? *[TB 4.3.8]*
- A) The interest rate is 9 percent and the expected inflation rate is 7 percent.
 - B) The interest rate is 4 percent and the expected inflation rate is 1 percent.
 - C) The interest rate is 13 percent and the expected inflation rate is 15 percent.
 - D) The interest rate is 25 percent and the expected inflation rate is 50 percent.
29. If you expect the inflation rate to be 4 percent next year and a one-year bond has a yield to maturity of 7 percent, then the real interest rate on this bond is *[TB 4.3.12]*
- A) -3 percent
 - B) -2 percent
 - C) 3 percent
 - D) 7 percent
30. The interest rate on Treasury Inflation Indexed Securities can be roughly interpreted as *[TB 4.3.14]*
- A) the real interest rate
 - B) the nominal interest rate
 - C) the rate of inflation
 - D) the rate of deflation

Answer Key

1. A (TB 4.1.1) 2. A (TB 4.1.2) 3. C (TB 4.1.4) 4. A (TB 4.1.5) 5. A (TB 4.1.8) 6. B (TB 4.1.9) 7. C (TB 4.1.12) 8. A (TB 4.1.16) 9. A (TB 4.1.18) 10. D (TB 4.1.23) 11. C (TB 4.1.28) 12. C (TB 4.1.29) 13. A (TB 4.1.38) 14. C (TB 4.2.1) 15. A (TB 4.2.2) 16. A (TB 4.2.3) 17. D (TB 4.2.4) 18. C (TB 4.2.5) 19. A (TB 4.2.19) 20. D (TB 4.2.24) 21. B (TB 4.2.26) 22. A (TB 4.2.27) 23. A (TB 4.3.1) 24. B (TB 4.3.2) 25. A (TB 4.3.3) 26. A (TB 4.3.6) 27. D (TB 4.3.7) 28. B (TB 4.3.8) 29. C (TB 4.3.12) 30. A (TB 4.3.14)