

Texas A&M University - Corpus Christi

ECON3312 – Money and Banking
Mid-term 2 – Wednesday May 2nd, 2018

What you'll need to know and example questions

Content

You'll need to know everything that we've done since the beginning of the course. The material in the test will include material from Chapters 10 through 18. Everything in these chapters, the contents of the online assignments and the classes will be eligible for inclusion.

Exam format

You will require a scantron form for this exam.

The exam consists of 50 multiple choice questions, all of which are compulsory.

You will have 1 hour and 30 minutes to do the exam, so you will have just under 2 minutes to complete each question. You should bring both a pencil and eraser to the exam so you can erase anything that you realise is wrong. Calculators are permitted. The example questions below will all be used in the exam, perhaps modified.

Tips

Remember that exam technique matters! In multiple choice questions, please read through the possible responses to each question before choosing the correct answer - remember that in multiple choice exams you should choose the response that is most correct.

Office hours

Office hours will be held as usual on Tuesday May 1st and Wednesday May 2nd.

Example questions

I have supplied some sample questions for you to try while you are reviewing. These questions can be found, with answer key, below.

EXAMPLES

Indicate the answer choice that best completes the statement or answers the question.

1. Currency in circulation plus bank reserves plus US Treasury currency in circulation is referred to as
 - a. M1.
 - b. M2.
 - c. M3.
 - d. the monetary base.
2. When the Federal Reserve makes a loan at the discount window to a bank, it will _____ the monetary base by _____ bank reserves.
 - a. decrease; decreasing
 - b. increase; decreasing
 - c. decrease; increasing
 - d. increase; increasing
3. When the Federal Reserve began its policy of quantitative easing in November 2008, there was _____ in the monetary base.
 - a. no change
 - b. a dramatic increase
 - c. a slight increase
 - d. a decline
4. One of the concerns about the Federal Reserve targeting high employment is that it might
 - a. sacrifice its focus on regulation.
 - b. lose sight of its responsibility as a lender of last resort.
 - c. neglect the goal of stable prices.
 - d. become subject to greater influence by the executive branch of government.
5. The academic literature on central bank independence shows
 - a. a strong negative correlation between independence and inflation.
 - b. mixed results with some studies showing a negative correlation between central bank independence and inflation and other studies showing a positive correlation.
 - c. a strong positive correlation between independence and inflation.
 - d. absolutely no relationship between independence and inflation.
6. Among the assets on a bank's balance sheet are
 - a. demand deposits.
 - b. savings accounts.
 - c. bank capital.
 - d. consumer loans.
7. US Treasury securities are attractive assets for banks because they
 - a. are issued by the US government.
 - b. have a short term to maturity.
 - c. offer a high rate of return.
 - d. have a low default risk.

8. If a bank has an interest rate gap of $-\$5$ million dollars and interest rates decline by 100 basis points, then income will
- decrease by \$50,000.
 - increase by \$50,000.
 - decrease by \$5 million.
 - increase by \$5 million.
9. The McFadden Act of 1927 was passed to prohibit federally chartered banks from
- selling insurance.
 - branching across state lines.
 - underwriting stocks and bonds.
 - making contributions to political candidates.
10. The FDIC prefers to use the purchase and assume strategy to deal with a failed bank rather than the pay off and liquidate approach because it is typically
- less risky.
 - less complicated.
 - more likely to succeed.
 - less expensive.
11. Suppose you buy a 60-day T-bill with a face value of \$1,000 at a price of \$990. Your discount rate yield (DRY) would be
- 4.5%.
 - 5.0%.
 - 5.5%.
 - 6.0%.
12. Techguru Corporation issues bonds that include specifications on what management may or may not do during the life of the bond. This portion of the bond agreement is known as a(n)
- call provision.
 - indenture.
 - bond exemption.
 - bond covenant.
13. Ryan owns 1,000 shares of preferred stock in Grant Corporation. This means that Ryan
- will receive dividends after those who hold common stock are paid.
 - will receive a fixed dividend payment.
 - has voting rights at the annual corporate meeting.
 - purchased his stock in the secondary market.
14. Today, the typical amount of cash needed for a down payment on a home is _____ of the purchase price.
- 10%
 - 15%
 - 20%
 - 25%

Answer Key

1. d
2. d
3. b
4. c
5. b
6. d
7. d
8. b
9. b
10. d
11. d
12. d
13. b
14. c