Texas A&M University - Corpus Christi

ECON3312 – Money and Banking
Mid-term 2 – Tuesday May 3rd, 2016

What you'll need to know and example questions

Content

You'll need to know everything that we've done since the last mid-term. The material in the test will include material from Chapters 9, 10, 11, 12, 13, 15, 16, 17, and 18.   Everything in these chapters, the contents of the 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 3rd.

Example questions

I have supplied some sample questions for you to try while you are reviewing.   Please see over.

MULTIPLE CHOICE.   Choose the one alternative that best completes the statement or answers the question.

1) Bank capital is equal to _____ minus _____.
    A) total liabilities; total assets   B) total assets; total reserves
    C) total liabilities; total borrowings   D) total assets; total liabilities

1) _____

2) When bad drivers line up to purchase collision insurance, automobile insurers are subject to the
    A) adverse selection problem.   B) ill queue problem.
    C) moral hazard problem.   D) assigned risk problem.

2) _____

3) The global financial crisis showed the need for increased financial regulation, however, too much or poorly designed regulation could
    A) increase international financial integration.
    B) increase economic growth.
    C) increase the efficiency of the financial system.
    D) choke off financial innovation.

3) _____

4) The presence of so many commercial banks in the United States is most likely the result of
    A) prior regulations that restricted the ability of these financial institutions to open branches.
    B) adverse selection and moral hazard problems that give local banks a competitive advantage over larger banks.
    C) consumers' preference for state banks.
    D) consumers' strong desire for dealing with only local banks.

4) _____

5) The main center of the Eurodollar market is
    A) Paris.   B) London.   C) Basel.   D) New York.

5) _____

6) One problem with conflicts of interest is that they can reduce the _____ in financial markets, thereby increasing _____.
    A) quality of information; asymmetric information
    B) quantity of information; financial institutions' profits
    C) quantity of information; asymmetric information
    D) quality of information; financial institutions' profits

6) _____

7) The Federal Reserve Bank of _____ plays a special role in the Federal Reserve System because it houses the open market desk.
    A) Boston   B) New York   C) San Francisco   D) Chicago

7) _____

8) Total Reserves minus vault cash equals
    A) excess reserves.   B) currency in circulation.
    C) bank deposits with the Fed.   D) required reserves.

8) _____

9) Decisions by depositors to increase their holdings of _____, or of banks to hold _____ will result in a smaller expansion of deposits than the simple model predicts.
    A) deposits; excess reserves   B) deposits; required reserves
    C) currency; required reserves   D) currency; excess reserves

9) _____

10) Everything else held constant, in the market for reserves, when the federal funds rate equals the discount rate, lowering the discount rate
    A) increases the federal funds rate.
    B) lowers the federal funds rate.
    C) has no effect on the federal funds rate.
    D) has an indeterminate effect of the federal funds rate.

10) _____

1) D
2) A
3) D
4) A
5) B
6) A
7) B
8) C
9) D
10) B