Texas A&M University - Corpus Christi

ECON3312 – Money and Banking
Mid-term 1 – Wednesday March 7th, 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 1 through 9. 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 March 6th. In addition I will be in my office on the afternoon of Monday March 5th from around 2pm to 3pm.

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. Financial markets bring together ___________ and ___________.
   a. households; banks
   b. firms; households
   c. borrowers; lenders
   d. lenders; savers

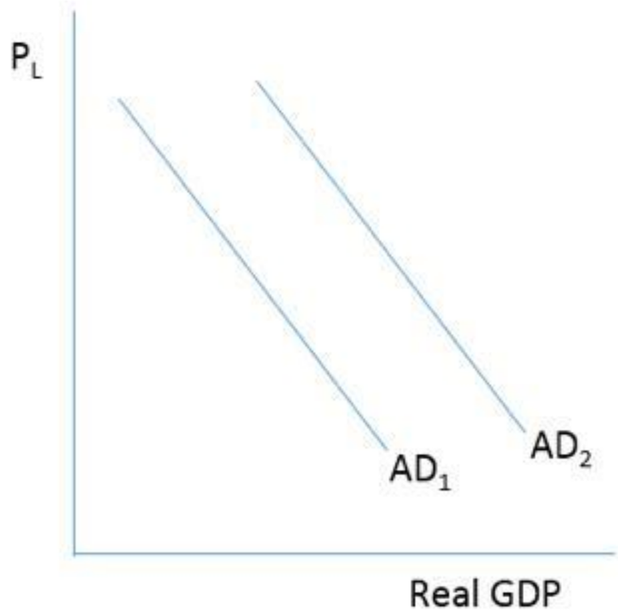
2. When a coffee shop lists a tall coffee on its menu at $2.95, the coffee shop is using money as a
   a. unit of account.
   b. medium of exchange.
   c. store of value.
   d. source of profit.

3. A bond's maturity refers to the
   a. rate of interest to be paid to the holder of a bond.
   b. amount that the bond issuer must repay.
   c. period of time when the issuer of the bond makes repayment of the bond's principal.
   d. issuer of the bond.

4. A decrease in the demand for loanable funds would be caused by
   a. lower expected household income.
   b. an increase in business confidence.
   c. an increase in government budget deficits.
   d. a decrease in expectations about future inflation.

5. Inflation is a benefit to
   a. no one.
   b. borrowers.
   c. lenders.
   d. both borrowers and lenders.

6. Nominal interest rates are made up of
   a. expected interest rates plus expected inflation.
   b. real interest rates plus inflation.
   c. inflation plus adjusted interest rates.
   d. adjusted interest rates plus expected inflation.



7. Consider Figure 6-1. Which of the following will cause a shift in the aggregate demand curve from AD_1 to AD_2?
   a. An increase in personal savings
   b. An increase in personal income taxes
   c. A reduction in personal income taxes
   d. Increased consumer pessimism about the future

8. The bond rating system, in which companies like Moody's and Standard & Poor's provide ratings for a company's default risk, is one way to deal with
   a. symmetric information.
   b. adverse hazard.
   c. adverse selection.
   d. moral selection.

9. By far, the largest asset on the Federal Reserve's balance sheet is
   a. gold.
   b. coin.
   c. discount loans.
   d. securities.

10. In order to overcome the stigma that might come from borrowing from the Federal Reserve following the 2007 financial crisis, the Federal Reserve created
   a. the discount window.
   b. quantitative easing.
   c. the Federal Open Market Committee (FOMC).
   d. the term auction facility (TAF).

11. Initially, quantitative easing was not much help in creating economic growth because
   a. banks did not lend out the excess reserves that were created by quantitative easing.
   b. the Federal Reserve also increased the required reserve ratio so additional reserves were not available for lending.
   c. the Federal government began to cut spending, which counteracted the expansionary monetary policy.
   d. the expansion of the monetary base was inflationary.

ANSWER KEY

1. c
2. a
3. c
4. d
5. b
6. b
7. c
8. c
9. d
10. d
11. a