Financial Markets and Institutions, 9e **(Mishkin)**
Chapter 2 Overview of the Financial System

2.1 Multiple Choice

1) Every financial market performs the following function:
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 lenders-savers to borrowers-spenders.
Answer: D
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

2) Securities are ________ for the person who buys them, but ________ for the individual/firm that sells them.
A) assets; liabilities
B) liabilities; assets
C) income; liabilities
D) liabilities; expenses
Answer: A
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

3) Financial markets have the basic function of
A) bringing together people with funds to lend and people who want to borrow funds.
B) assuring that the swings in the business cycle are less pronounced.
C) assuring that governments need never resort to printing money.
D) both A and B of the above.
E) both B and C of the above.
Answer: A
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

4) Which of the following can be described as involving direct finance?
A) A corporation's stock is traded in an over-the-counter market.
B) People buy shares in a mutual fund.
C) A pension fund manager buys commercial paper in the secondary market.
D) An insurance company buys shares of common stock in the over-the-counter markets.
E) None of the above.
Answer: E
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

5) Which of the following can be described as involving direct finance?
A) A corporation's stock is traded in an over-the-counter market.
B) A corporation buys commercial paper issued by another corporation.
C) A pension fund manager buys commercial paper from the issuing corporation.
D) Both A and B of the above.
E) Both B and C of the above.
Answer: B
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

6) Which of the following can be described as involving indirect finance?
A) A corporation takes out loans from a bank.
B) People buy shares in a mutual fund.
C) A corporation buys commercial paper in a secondary market.
D) All of the above.
E) Only A and B of the above.
Answer: E
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

7) Which of the following can be described as involving indirect finance?
A) A bank buys a U.S. Treasury bill from one of its depositors.
B) A corporation buys commercial paper issued by another corporation.
C) A pension fund manager buys commercial paper in the primary market.
D) Both A and C of the above.
Answer: D
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

8) Financial markets improve economic welfare because
A) they allow funds to move from those without productive investment opportunities to those who have such opportunities.
B) they allow consumers to time their purchases better.
C) they weed out inefficient firms.
D) they do all of the above.
E) they do A and B of the above.
Answer: E
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

9) A country whose financial markets function poorly is likely to
A) efficiently allocate its capital resources.
B) enjoy high productivity.
C) experience economic hardship and financial crises.
D) increase its standard of living.
Answer: C
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

10) Wealth, either financial or physical, that is employed to produce more wealth is referred to as
A) assets.
B) the market.
C) capital.
D) funding.
Answer: C
Topic: Chapter 2.1 Function of Financial Markets
Question Status: New Question

11) Which of the following are securities?
A) A certificate of deposit
B) A share of Texaco common stock
C) A Treasury bill
D) All of the above
E) Only A and B of the above
Answer: D
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

12) Which of the following statements about the characteristics of debt and equity are true?
A) They both can be long-term financial instruments.
B) They both involve a claim on the issuer's income.
C) They both enable a corporation to raise funds.
D) All of the above.
E) Only A and B of the above.
Answer: D
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

13) The money market is the market in which ________ are traded.
A) new issues of securities
B) previously issued securities
C) short-term debt instruments
D) long-term debt and equity instruments
Answer: C
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

14) A debt instrument is called ________ if its maturity is less than a year.
A) newly issued
B) intermediate-term
C) short-term
D) long-term
Answer: C
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: New Question

15) A debt instrument is called ________ if its maturity is greater than 10 years.
A) perpetual
B) intermediate-term
C) short-term
D) long-term
Answer: D
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: New Question

16) Long-term debt and equity instruments are traded in the ________ market.
A) primary
B) secondary
C) capital
D) money
Answer: C
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

17) Which of the following are primary markets?
A) The New York Stock Exchange
B) The U.S. government bond market
C) The over-the-counter stock market
D) The options markets
E) None of the above
Answer: E
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

18) Which of the following are secondary markets?
A) The New York Stock Exchange
B) The U.S. government bond market
C) The over-the-counter stock market
D) The options markets
E) All of the above
Answer: E
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

19) A corporation acquires new funds only when its securities are sold in the
A) secondary market by an investment bank.
B) primary market by an investment bank.
C) secondary market by a stock exchange broker.
D) secondary market by a commercial bank.
Answer: B
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

20) Equities often make periodic payments, called ________, to their holders and are considered long-term securities.
A) principal
B) interest
C) dividends
D) payouts
Answer: C
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: New Question

21) Which of the following statements about financial markets and securities are true?
A) Most common stocks are traded over-the-counter, although the largest corporations have their shares traded at organized stock exchanges such as the New York Stock Exchange.
B) A corporation acquires new funds only when its securities are sold in the primary market.
C) Money market securities are usually more widely traded than longer-term securities and so tend to be more liquid.
D) All of the above are true.
E) Only A and B of the above are true.
Answer: D
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

22) Which of the following statements about financial markets and securities are true?
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 long term if its maturity is ten years or longer.
D) The maturity of a debt instrument is the time (term) that has elapsed since it was issued.
Answer: C
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

23) Security ________ link buyers and sellers by buying and selling securities at stated prices, while ________ are agents of investors who match buyers with sellers of securities.
A) brokers; dealers
B) brokers; agents
C) agents; dealers
D) dealers; brokers
Answer: D
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: New Question

24) Which of the following statements about financial markets and securities are true?
A) Few common stocks are traded over-the-counter, although the over-the-counter markets have grown in recent years.
B) A corporation acquires new funds only when its securities are sold in the primary market.
C) Capital market securities are usually more widely traded than longer-term securities and so tend to be more liquid.
D) All of the above are true.
E) Only A and B of the above are true.
Answer: B
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

25) Which of the following markets is sometimes organized as an over-the-counter market?
A) The stock market
B) The bond market
C) The foreign exchange market
D) The federal funds market
E) all of the above
Answer: E
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

26) At the end of 2012, the value of debt instruments in the U.S. was around ________ trillion, and the value of equities was around ________ trillion.
A) $38; $19
B) $20; $10
C) $19; $38
D) $10; $20
Answer: A
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

27) 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
A) foreign bonds.
B) Eurobonds.
C) Eurocurrencies.
D) Eurodollars.
Answer: B
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

28) The DAX (Germany) and the FTSE 100 (London) are examples of
A) foreign stock exchanges.
B) foreign currencies.
C) foreign stock price indexes.
D) foreign mutual funds.
Answer: C
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

29) Bonds that are sold in a foreign country and are denominated in that country's currency are known as
A) foreign bonds.
B) Eurobonds.
C) Eurocurrencies.
D) Eurodollars.
Answer: A
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

30) The country whose banks are the most restricted in the range of assets they may hold is
A) Japan.
B) Canada.
C) Germany.
D) the United States.
Answer: D
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

31) Foreign bonds have been an important instrument in the international capital market for centuries. In fact, a large percentage of U.S. railroads built in the nineteenth century were financed by sales of foreign bonds in
A) Japan.
B) Britain.
C) Canada.
D) Germany.
Answer: B
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: New Question

32) Foreign currencies that are deposited in banks outside the home country are known as
A) foreign bonds.
B) Eurobond.
C) Eurocurrencies.
D) Eurodollars.
Answer: C
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

33) U.S. dollars deposited in foreign banks outside the United States or in foreign branches of U.S. are referred to as
A) Eurodollars.
B) Eurocurrencies.
C) Eurobonds.
D) foreign bonds.
Answer: A
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

34) After 2002, the ________ handle(s) a larger share of initial public offerings (IPOs) of stock than do/does the ________.
A) New York Stock Exchange; London and Hong Kong stock exchanges
B) London and Hong Kong stock exchanges; New York Stock Exchange
C) FTSE and DAX exchanges; London and Hong Kong stock exchanges
D) FTSE and DAX exchanges; New York Stock Exchange
Answer: B
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: New Question

35) Banks providing depositors with checking accounts that enable them to pay their bills easily is known as
A) liquidity services.
B) asset transformation.
C) risk sharing.
D) transaction costs.
Answer: A
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

36) Intermediaries who are agents of investors and match buyers with sellers of securities are called
A) investment bankers.
B) traders.
C) brokers.
D) dealers.
E) none of the above.
Answer: C
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

37) Intermediaries who link buyers and sellers by buying and selling securities at stated prices are called
A) investment bankers.
B) traders.
C) brokers.
D) dealers.
E) none of the above.
Answer: D
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

38) Financial intermediaries
A) exist because there are substantial information and transaction costs in the economy.
B) improve the lot of the small saver.
C) are involved in the process of indirect finance.
D) do all of the above.
E) do only A and B of the above.
Answer: D
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

39) The main sources of financing for businesses, in order of importance, are
A) financial intermediaries, issuing bonds, issuing stocks.
B) issuing bonds, issuing stocks, financial intermediaries.
C) issuing stocks, issuing bonds, financial intermediaries.
D) issuing stocks, financial intermediaries, issuing bonds.
Answer: A
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

40) The presence of transaction costs in financial markets explains, in part, why
A) financial intermediaries and indirect finance play such an important role in financial markets.
B) equity and bond financing play such an important role in financial markets.
C) corporations get more funds through equity financing than they get from financial intermediaries.
D) direct financing is more important than indirect financing as a source of funds.
Answer: A
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

41) Financial intermediaries can substantially reduce transaction costs per dollar of transactions because their large size allows them to take advantage of
A) poorly informed consumers.
B) standardization.
C) economies of scale.
D) their market power.
Answer: C
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

42) The reduction in transaction costs per dollar of transactions as the size (scale) of transactions increases is known as
A) economies of scope.
B) economies of scale.
C) standardization.
D) market power.
Answer: B
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: New Question

43) The purpose of diversification is to
A) reduce the volatility of a portfolio's return.
B) raise the volatility of a portfolio's return.
C) reduce the average return on a portfolio.
D) raise the average return on a portfolio.
Answer: A
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

44) An investor who puts all her funds into one asset ________ her portfolio's ________.
A) increases; diversification
B) decreases; diversification
C) increases; average return
D) decreases; average return
Answer: B
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

45) Through risk-sharing activities, a financial intermediary ________ its own risk and ________ the risks of its customers.
A) reduces; increases
B) increases; reduces
C) reduces; reduces
D) increases; increases
Answer: B
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

46) The presence of ________ in financial markets leads to adverse selection and moral hazard problems that interfere with the efficient functioning of financial markets.
A) noncollateralized risk
B) free-riding
C) asymmetric information
D) costly state verification
Answer: C
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

47) When the lender and the borrower have different amounts of information regarding a transaction, ________ is said to exist.
A) asymmetric information
B) adverse selection
C) moral hazard
D) fraud
Answer: A
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

48) When the potential borrowers who are the most likely to default are the ones most actively seeking a loan, ________ is said to exist.
A) asymmetric information
B) adverse selection
C) moral hazard
D) fraud
Answer: B
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

49) When the borrower engages in activities that make it less likely that the loan will be repaid, ________ is said to exist.
A) asymmetric information
B) adverse selection
C) moral hazard
D) fraud
Answer: C
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

50) The concept of adverse selection helps to explain
A) which firms are more likely to obtain funds from banks and other financial intermediaries, rather than from the securities markets.
B) why indirect finance is more important than direct finance as a source of business finance.
C) why direct finance is more important than indirect finance as a source of business finance.
D) only A and B of the above.
E) only A and C of the above.
Answer: D
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

51) Adverse selection is a problem associated with equity and debt contracts arising from
A) the lender's relative lack of information about the borrower's potential returns and risks of his investment activities.
B) the lender's inability to legally require sufficient collateral to cover a 100 percent loss if the borrower defaults.
C) the borrower's lack of incentive to seek a loan for highly risky investments.
D) none of the above.
Answer: A
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

52) When the least desirable credit risks are the ones most likely to seek loans, lenders are subject to the
A) moral hazard problem.
B) adverse selection problem.
C) shirking problem.
D) free-rider problem.
E) principal-agent problem.
Answer: B
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

53) Successful financial intermediaries have higher earnings on their investments because they are better equipped than individuals to screen out good from bad risks, thereby reducing losses due to
A) moral hazard.
B) adverse selection.
C) bad luck.
D) financial panics.
Answer: B
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

54) In financial markets, lenders typically have inferior information about potential returns and risks associated with any investment project. This difference in information is called
A) comparative informational disadvantage.
B) asymmetric information.
C) variant information.
D) caveat venditor.
Answer: B
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

55) A ________ is when one party in a financial contract has incentives to act in its own interest rather than in the interests of the other party.
A) moral hazard
B) risk
C) conflict of interest
D) financial panic
Answer: C
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

56) Fire and casualty insurance companies are what type of intermediary?
A) Contractual savings institution
B) Depository institutions
C) Investment intermediaries
D) None of the above
Answer: A
Topic: Chapter 2.5 Types of Financial Intermediaries
Question Status: Previous Edition

57) Which of the following financial intermediaries are depository institutions?
A) A savings and loan association
B) A commercial bank
C) A credit union
D) All of the above
E) Only A and C of the above
Answer: D
Topic: Chapter 2.5 Types of Financial Intermediaries
Question Status: Previous Edition

58) Which of the following is a contractual savings institution?
A) A life insurance company
B) A credit union
C) A savings and loan association
D) A mutual fund
Answer: A
Topic: Chapter 2.5 Types of Financial Intermediaries
Question Status: Previous Edition

59) The largest depository institution (value of assets) at the end of 2012 was
A) commercial banks.
B) pension funds.
C) credit unions.
D) mutual funds.
Answer: A
Topic: Chapter 2.5 Types of Financial Intermediaries
Question Status: Previous Edition

60) Which of the following are not investment intermediaries?
A) A life insurance company
B) A pension fund
C) A mutual fund
D) Only A and B of the above
Answer: D
Topic: Chapter 2.5 Types of Financial Intermediaries
Question Status: Previous Edition

61) An important financial institution that assists in the initial sale of securities in the primary market is the
A) investment bank.
B) commercial bank.
C) stock exchange.
D) brokerage house.
Answer: A
Topic: Chapter 2.5 Types of Financial Intermediaries
Question Status: Previous Edition

62) Which of the following are investment intermediaries?
A) Finance companies
B) Mutual funds
C) Pension funds
D) All of the above
E) Only A and B of the above
Answer: E
Topic: Chapter 2.5 Types of Financial Intermediaries
Question Status: Previous Edition

63) The government regulates financial markets for two main reasons:
A) to ensure soundness of the financial system and to increase the information available to investors.
B) to improve control of monetary policy and to increase the information available to investors.
C) to ensure that financial intermediaries do not earn more than the normal rate of return and to improve control of monetary policy.
D) to ensure soundness of financial intermediaries and to prevent financial intermediaries from earning less than the normal rate of return.
Answer: A
Topic: Chapter 2.6 Regulation of the Financial System
Question Status: Previous Edition

64) Asymmetric information can lead to widespread collapse of financial intermediaries, referred to as a
A) bank holiday.
B) financial panic.
C) financial disintermediation.
D) financial collapse.
Answer: B
Topic: Chapter 2.6 Regulation of the Financial System
Question Status: Previous Edition

65) Which of the following is not a regulator of part of the U.S. financial system?
A) National Credit Union Administration
B) Securities and Exchange Commission
C) Federal Reserve System
D) Federal Deposit Insurance Corporation
E) All of the above are regulators.
Answer: E
Topic: Chapter 2.6 Regulation of the Financial System
Question Status: Previous Edition

66) Asymmetric information can lead to the widespread collapse of financial intermediaries, referred as financial
A) panic.
B) bubble.
C) asset.
D) transaction.
Answer: A
Topic: Chapter 2.6 Regulation of the Financial System
Question Status: Previous Edition

67) The SEC restricts trading by the largest stockholders (known as ________) in corporations issuing securities.
A) insiders
B) members of the board
C) hedge funds
D) intermediaries
Answer: A
Topic: Chapter 2.6 Regulation of the Financial System
Question Status: Previous Edition

68) The Federal Deposit Insurance Corporation (FDIC) insures each depositor at a commercial bank, savings and loan association, or mutual savings bank up to a loss of ________ per account.
A) $100,000
B) $250,000
C) $500,000
D) $1,000,000
Answer: B
Topic: Chapter 2.6 Regulation of the Financial System
Question Status: Previous Edition

69) The major differences between financial regulation in the United States and abroad relate to bank regulation. Specifically, in the past, the U.S. was the only industrialized country to subject banks to restrictions on
A) branching.
B) lending.
C) assets they may hold.
D) the size they could grow to.
Answer: A
Topic: Chapter 2.6 Regulation of the Financial System
Question Status: Previous Edition

2.2   True/False

1) Every financial market allows loans to be made.
Answer: FALSE
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

2) Most people's involvement with the financial system is through financial intermediaries rather than financial markets.
Answer: TRUE
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

3) A critical function of financial markets is an efficient allocation of capital.
Answer: TRUE
Topic: Chapter 2.1 Function of Financial Markets
Question Status: New Question

4) The New York Stock Exchange is an example of a primary market.
Answer: FALSE
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

5) Equity represents an ownership interest in a firm and entitles the holder to the residual cash flows.
Answer: TRUE
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

6) The capital market is a financial market in which only short-term debt instruments (generally those with an original maturity of less than one year) are traded.
Answer: FALSE
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

7) Many common stocks are traded over the counter, although a majority of the largest corporations have their shares traded at organized stock exchanges.
Answer: TRUE
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

8) Many common stocks are traded at organized exchanges, although a majority of the largest corporations have their shares traded over the counter.
Answer: FALSE
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

9) Corporations that issue new securities to raise capital now conduct more of this business in financial markets in Europe and Asia than in the U.S.
Answer: TRUE
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

10) Currently, over 80% of the new issues in the international bond market are Eurobonds.
Answer: TRUE
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

11) American investors pay attention to only the Dow Jones Industrial Average.
Answer: FALSE
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

12) A bond denominated in euros and issued in a country that uses the euro as its currency is an example of a Eurobond.
Answer: FALSE
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

13) An example of direct financing is if you were to lend money to your neighbor.
Answer: TRUE
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

14) Liquidity services are services that make it easier for customers to conduct financial transactions.
Answer: TRUE
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: New Question

15) A financial intermediary's risk-sharing activities are also referred to as asset transformation.
Answer: TRUE
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

16) The process of financial intermediation is also known as direct finance.
Answer: FALSE
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

17) Through economies of scale, financial intermediaries can lower the cost of information production for each service by applying one information resource to many different services.
Answer: FALSE
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: New Question

18) Adverse selection refers to those with high credit risks, being most aggressive in their search for funds.
Answer: TRUE
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

19) A mutual fund is not a depository institution.
Answer: TRUE
Topic: Chapter 2.5 Types of Financial Intermediaries
Question Status: Previous Edition

20) A pension fund is not a contractual savings institution.
Answer: FALSE
Topic: Chapter 2.5 Types of Financial Intermediaries
Question Status: Previous Edition

21) "Thrift institutions" include savings and loan associations, mutual savings banks, and credit unions.
Answer: TRUE
Topic: Chapter 2.5 Types of Financial Intermediaries
Question Status: New Question

22) The government agency that insures each depositor at a commercial bank, savings and loan association, or mutual savings bank up to a loss of $100,000 per account ($250,000 for individual retirement accounts) is the Securities and Exchange Commission (SEC).
Answer: FALSE
Topic: Chapter 2.6 Regulation of the Financial System
Question Status: Previous Edition

23) In the U.S., financial intermediaries are restricted in what they are allowed to do and what assets they can hold.
Answer: TRUE
Topic: Chapter 2.6 Regulation of the Financial System
Question Status: Previous Edition

24) Unlike regulations in other countries, there are very few federal regulations governing who is allowed to set up a financial intermediary.
Answer: FALSE
Topic: Chapter 2.6 Regulation of the Financial System
Question Status: Previous Edition

2.3   Essay

1) Distinguish between direct financing and indirect financing.
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

2) Why is it so important for an economy to have fully developed financial markets?
Topic: Chapter 2.1 Function of Financial Markets
Question Status: Previous Edition

3) Distinguish between primary markets and secondary markets.
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

4) Distinguish between money markets and capital markets.
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

5) Describe how over-the-counter markets work.
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

6) What are some of the differences between an organized exchange and an over-the-counter market?
Topic: Chapter 2.2 Structure of Financial Markets
Question Status: Previous Edition

7) Why do corporations that issue new securities to raise capital now conduct more of this business in
financial markets in Europe and Asia than in the United States?
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

8) What are some of the major foreign stock exchanges? Is following their returns important to U.S. investors? Why or why not?
Topic: Chapter 2.3 Internationalization of Financial Markets
Question Status: Previous Edition

9) Why are financial intermediaries so important to an economy?
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

10) What are adverse selection and moral hazard?
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

11) Why can a financial intermediary's risk-sharing activities be described as asset transformation?
Topic: Chapter 2.4 Function of Financial Intermediaries: Indirect Finance
Question Status: Previous Edition

12) Discuss the differences between depository institutions, contractual savings institutions, and investment intermediaries.
Topic: Chapter 2.5 Types of Financial Intermediaries
Question Status: Previous Edition

13) List some of the regulatory agencies of the U.S. and their primary role.
Topic: Chapter 2.6 Regulation of the Financial System
Question Status: New Question