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

1) So-called fallen angels differ from junk bonds in that
   A) junk bonds have ratings below Baa, whereas fallen angels have ratings below C.
   B) junk bonds refer to previously bonds that have had their credit ratings fall below Baa, whereas fallen angels refer to newly issued bonds with low credit ratings.
   C) fallen angels have ratings below Baa, whereas junk bonds have ratings below C.
   D) junk bonds refer to newly issued bonds with low credit ratings, whereas fallen angels refer to previously bonds that have had their credit ratings fall below Baa.

2) Because of the abuses by state banks and the clear need for a central bank to help the federal government raise funds during the War of 1812, Congress created the

3) Thrift institutions' importance as a source of funds for borrowers
   A) has shrunk from over 20 percent of total credit advanced in the late 1970s to below 10 percent by 1999.
   B) has shrunk from around 40 percent of total credit advanced in the late 1970s to below 30 percent by 1999.
   C) has expanded dramatically, from around 15 percent of total credit advanced in the late 1970s to above 30 percent by 1999.
   D) has expanded dramatically, from around 15 percent of total credit advanced in the late 1970s to above 25 percent by 1999.

4) Reasons for holding Eurodollars include
   A) the fact that Eurodollar deposits are insured by the FDIC.
   B) the fact that Eurodollar deposits are heavily regulated.
   C) the fact that minimum transaction sizes are very low, making Eurodollars an attractive savings instrument for consumers.
   D) the fact that dollars are widely used to conduct international transactions.
   E) all of the above reasons.

5) The regulatory agency responsible for supervising savings and loans institutions is the
   A) FSLIC.                               B) Fed.
6) Avoiding reserves requirements would enable banks to
   A) increase interest income.
   B) reduce expenses.
   C) increase profits.
   D) all of above.
   E) both A and C of the above.

7) One factor contributing to the decline in income advantages that banks once had is the increased
competition from the commercial paper market which has grown from _____ percent of
commercial and industrial bank loans to over _____ percent today.
   A) 10; 20       B) 10; 40       C) 5; 20       D) 5; 40

8) Which of the following is not a reason for the rapid expansion of international banking?
   A) The growth of multinational corporations
   B) The desire for U.S. banks to expand
   C) The rapid growth in international trade
   D) None of the above

9) The declining cost of computer technology has made __________ a reality.
   A) brick and mortar banking
   B) international banking
   C) investment banking
   D) commercial banking
   E) virtual banking

10) Creating a marketable capital market instrument by bundling a portfolio of mortgage or auto loans is
    A) arbitrage.
    B) diversification.
    C) computerization.
    D) securitization.
    E) optioning the portfolio.

11) The business term for economies of scope is
    A) consolidation.
    B) synergies.
    C) cooperation.
    D) economies of scale.
    E) diversification.
12) Bank regulatory agencies include
   A) the Federal Reserve System.
   B) the Federal Deposit Insurance Corporation.
   C) the Comptroller of the Currency.
   D) all of the above.
   E) both A and B of the above.

13) Which of the following are true statements concerning shared electronic banking facilities?
   A) Most courts and states have held that electronic bank facilities are technically subject to branching restrictions.
   B) If an electronic facility is paid for on a transaction fee basis, it is not considered a branch bank, and is therefore not subject to branching regulations.
   C) McFadden Act restrictions do not apply to electronic facilities owned outright by banks.
   D) All of the above are true.
   E) Only A and B of the above are true.

14) Large fluctuations in interest rates lead to
   A) greater interest-rate risk.
   B) greater uncertainty about returns on investments.
   C) substantial capital gains and losses to owners of securities.
   D) all of the above.

15) As a result of restrictive banking regulations, the United States
   A) has banks that are quite large relative to those in other countries.
   B) has too few banks when compared to other industrialized countries.
   C) has too many banks when compared to other industrialized countries.
   D) both A and B of the above.

16) Benefits of nationwide banking will likely include
   A) increased competition.
   B) reduced bank failures.
   C) increased diversification of banks' loan portfolios.
   D) all of the above.
   E) both B and C of the above.
17) An instrument developed to help investors and institutions hedge interest-rate risk is
A) a call option.
B) a mortgage–backed security.
C) a Treasury security.
D) a put option.
E) a financial derivative.

18) Banks responded to disintermediation by
A) refusing to pay interest on deposits.
B) demanding that interest rate regulations be imposed on money market mutual funds.
C) supporting the elimination of interest rate regulations, enabling them to better compete for funds.
D) opposing the elimination of interest rate regulations, as this would increase their cost of funds.
E) supporting the elimination of interest rate regulations, as this would reduce their cost of funds.

19) In 1977, he pioneered the concept of selling new public issues of junk bonds for companies that had not yet achieved investment–grade status.
A) Carl Ichan
B) Ivan Boskey
C) Michael Milken
D) Roger Milliken

20) Lack of competition in the United States banking industry can be attributed to
A) recent legislation restricting competition.
B) the fact that branching has eliminated competition.
C) the fact that competition does not benefit consumers.
D) nationalization of the banking industry.
E) nineteenth-century populist sentiment.
Answer Key
Testname: PRACTICE_CH10

1) D
2) C
3) A
4) D
5) C
6) E
7) C
8) D
9) E
10) D
11) B
12) D
13) E
14) D
15) C
16) D
17) E
18) C
19) C
20) E