## Chapters 10-13

#### **Multiple Choice**

Identify the choice that best completes the statement or answers the question.

1.	Which	of the	followin	g is an	example	of a	barter systen	n?

a.	Instead of paying rent, you clean the house for the owner.
b.	Instead of paying cash for a computer, you use a credit card.
c.	Instead of paying the full amount for a car, you pay 10 percent in cash and pay for the rest

- monthly installments.

  d. Instead of paying for a purchase in Mexico in pesos, you use dollars from the United States
- 2. Which of the following is the main disadvantage of using shells as money instead of coins?

a.	durability	c.	uniformity
b.	portability	d.	divisibility

3. Which of the following is an example of representative money?

a.	a fur coat		c.	gold earrings
b.	diamonds		d.	an IOU note

4. What is the purpose of the Federal Deposit Insurance Corporation (FDIC)?

. ,,,	what is the purpose of the redefair Deposit insurance Corporation (1 Die).					
a.	to make sure that banks do not fail					
b.	to make sure that customers do not lose money if a bank fails					
c.	to make sure that banks charge a fair amount of interest on loans					
d.	to make sure that the government has enough gold to cover its expenses					

5. What is a mortgage used to purchase?

a.	car	c.	college tuition
b.	real estate	d.	business expenses

6. Which of the following is NOT an example of a liquid asset?

_				(1124-1144-1144-1144-1144-1144-1144-1144
	a.	cash	c.	a certificate of deposit
	b.	travelers' checks	d.	a checking account

7. Why is using coins as money easier than using gold bars?

	if is using come as money caster man asing	8010 00101		
a.	coins are more durable	c.	coins are more uniform	
b.	coins are more portable	d.	coins are more limited in supply	

8. What condition is necessary for a fiat money system to work?

a.	Money owed must be paid on time.
b.	The government must control the money supply.
c.	Banks must hold sufficient gold to cover any paper money they give out.
d.	Customers with checking accounts cannot earn interest on those accounts.

9. What happens when you make a purchase using a credit card?

a	ì.	The credit card issuer pays the store.
b	<b>)</b> .	The money is immediately deducted from your account.
С	<b>:</b> .	The amount of the purchase is deducted from a prepaid account.
Ċ	1.	The place where you made the purchase receives the money within 24 hours.

#### 10. Near money includes

a.	demand deposits and other checkable deposits.					
b.	credit cards and debit cards.					
c.	traveler's checks and deposits in checking accounts.					
d.	deposits in savings accounts and money market mutual funds.					

11.Pe	nny is an artist, and John is a carpenter. Penny a by John. How did Penny and John pay for the	_	1 1	ange for a handmade table created				
	C 1	Ť						
	Ü	d.	through bartering with currency					
4.0	b. with money							
12.	Which of the following statements is true?	_						
	a. Money is a medium of exchange.	c.	Money serves as a store of value.					
	b. Money is a unit of account.	d.						
13.	In the 1990s, the Russian people lost confidence in the value of the ruble, and many were no longer willing to sell goods and							
	services in exchange for Russian currency. When the services in exchange for Russian currency.			ency lack?				
	a. acceptability	c.	11.5					
	b. uniformity	d.	•					
14.	You decide to open a savings account, and you	ı not	tice a sign in your bank that indicates deposit	ts are FDIC insured. What				
	protection does that give you?							
	a. If the bank fails, your deposits are protected							
		annc	ot claim any of the first \$100,000 of your bar					
	deposits as compensation.	C .						
			interest if you have at least \$100,000 in the b					
	d. If you accidentally withdraw more money a penalty.	that	you have in your account, you will not have					
15.	Erin borrowed \$18,000 to buy a car. Her loan	will	be paid off in 5 years. By the time that she p	ays off the loan, she will have				
	made \$20,327 in payments. Why did she have	to p	ay \$2,327 more than the price of the car?					
	a. She had to pay interest of \$2,327 for the p	rivil	ege of borrowing the principal of \$18,000.					
	b. She had to pay principal of \$2,327 for the	priv	ilege of borrowing the mortgage of \$18,000.					
	c. She had to pay a default of \$2,327 for the	priv	ilege of borrowing the principal of \$18,000.					
	d. She had to pay the bond price of \$2,327.							
16.	The main advantage of diversification as an in	vest	ment policy is that it					
	a. reduces risk to investors.							
	b. increases investors' access to their money							
	c. offsets the effects of inflation on investme	nts.						
	d. guarantees a fixed rate of return on an investigation	estm	ent.					
17.	An accurate statement about government bond	ls wo	ould be that					
	a. they are insured by the FDIC.							
	b. they are generally held for 3 or 6 months.							
	c. they are a low-risk investment.							
	d. they entitle the holder to a share of owners	ship	in a corporation.					
18.	The interest rate the bond issuer pays to the bo	ndh	older is called the					
	a. coupon rate.	c.	discount rate.					
	b. maturity rate.	d.	value rate.					
19.	To finance the building of a new police station	ı, a 1	ocal government is most likely to issue a					
	a. junk bond.	c.	municipal bond.					
	b. treasury bond.	d.	-					
20.	Investing in a money market mutual fund is a market funds	high	•	sit because unlike CDs, money				
	a. are not insured by the FDIC.							
	<ul><li>b. are not protected by the Securities and Exc</li></ul>	chan	ge Commission.					
	c. do not earn a fixed interest rate.	6						
	d. must be held for a preset amount of time.							
	must be ness for a proper amount of time.							

21.WI	nen '	you invest in a mutual fund,						
	a.							
	b.	you have easier access to your money than						
	c.	your money is invested in a variety of stock						
	d.	·						
22.	Al	l of the following are low-risk investments E	XC	EPT				
	a.	junk bonds.	c.	municipal bonds.				
	b.	treasury bonds.	d.	savings bonds.				
23.								
	a.	receiving the maximum amount of interest	pos	sible.				
	b.	taking a risk in hopes that she'll get a high	retu	ırn.				
	c.	liquidity, since she'll need to use the mone						
d. making a safe long term investment.								
24. Why would a person invest in junk bonds?								
	a.	He does not know anything about investme	nt.					
	b.	Junk bonds can pay very high interest rates						
c. Most junk bonds have low interest rates.								
	d.	Junk bonds have high bond ratings.						
25.	Yo	our friend Jorge has just inherited \$1000 and	woi	uld like to invest the money in the stock mark	ket. You suggest that he			
	a.							
	b.							
	c.							
	d. call the New York Stock Exchange, who can direct him to the OTC market.							
26.	What is the largest source of income for banks?							
	a the interest they receive from loops							

a.	the interest they receive from loans
b.	fees charged to customers for accounts
c.	money deposited in savings accounts
d.	special accounts such as NOW accounts

### Matching

*Identifying Key Terms.* Match each term with the correct statement below.

a.	fractional reserve banking		
b.	currency		
c.	commodity money		
d.	default		
e.	Federal Deposit Insurance Corporation (FDIC)		
a.	Federal Reserve System		
b.	interest		
c.	mortgage		
d.	representative money		

- 27. failure to pay back a loan
- the government agency that makes sure that customers' money is safe if a bank fails
- a specific type of loan that is used to buy real estate
- 30. objects that have value in themselves and that are also used as money
- 31. coins and paper bills used as money
- 32. the price paid for the use of borrowed money
- 33. objects that have value because the holder can exchange them for something else of value

### Identifying Key Terms

Match each term with the correct statement below.

a.	bear market	a.	investment
b.	bull market	b.	par value
c.	capital gain	c.	portfolio
d.	equities	d.	prospectus
e.	financial asset	e.	yield

- 34. the use of assets to earn income or profits
- 35. the annual rate of return on a bond if the bond were held to maturity
- 36. claim on the property or income of a borrower
- 37. the difference between a higher selling price and a lower purchase price, resulting in a financial gain for the seller
- 38. a steady drop in the price of stocks over a period of time

# Identifying Key Terms

Match each term with the correct statement below.

a.	bear market	a.	portfolio
b.	bull market	b.	primary market
c.	equities	c.	prospectus
d.	investment	d.	return
e.	money market	e.	speculation

- 39. the act of redirecting resources from being consumed today so that they may create benefits in the future
- 40. the money an investor receives above and beyond the sum of money initially invested
- 41. a steady rise in the stock market over a period of time
- 42. the practice of making high-risk investments with borrowed money in hopes of getting a big return

# Money and Finance Celebration MULTIPLE CHOICE

39. ANS: D

40. ANS: D

41. ANS: B

42. ANS: E

VICL		CHOICE				
1.	ANS:	A	OBJ:	4.10.1.1	TOP:	barter
2.	ANS:	C	OBJ:	4.10.1.2	TOP:	money
3.	ANS:	D	OBJ:	4.10.1.3		representative money
4.	ANS:	В	OBJ:	4.10.2.3		federal deposit insurance corporation
5.	ANS:	В	OBJ:	4.10.3.2		mortgage
6.	ANS:	C	OBJ:	4.10.3.1		liquidity
7.	ANS:	В	OBJ:	4.10.1.2		money
8.	ANS:	В	OBJ:	4.10.1.3	TOP:	fiat money
9.	ANS:	A	OBJ:	4.10.3.2		credit card
10.	ANS:	D	OBJ:	4.10.3.1	TOP:	money supply
11.	ANS:	C	OBJ:	3.9.3.2		uses of money
12.	ANS:	D	OBJ:	3.9.3.2	TOP:	uses of money
13.	ANS:	A	OBJ:	4.10.1.2	TOP:	characteristics of money
14.	ANS:	A	OBJ:	4.10.2.3	TOP:	20th-century banking   FDIC
15.	ANS:	A	OBJ:	4.10.3.2	TOP:	functions of financial institutions
16.	ANS:	A	OBJ:	4.11.1.3	TOP:	diversification
17.	ANS:	C	OBJ:	4.11.2.1	TOP:	bonds
18.	ANS:	A	OBJ:	4.11.2.1	TOP:	coupon rate
19.	ANS:	C	OBJ:	4.11.2.2	TOP:	municipal bond
20.	ANS:	A	OBJ:	4.11.2.3	TOP:	mutual fund
21.	ANS:	C	OBJ:	4.11.1.3	TOP:	mutual fund
22.	ANS:	A	OBJ:	4.11.2.2	TOP:	junk bond
23.	ANS:	C	OBJ:	4.11.1.4	TOP:	risk and liquidity
24.	ANS:	В	OBJ:	4.11.2.2	TOP:	types of bonds
25.	ANS:	A	OBJ:	4.11.3.2	TOP:	trading stocks
26.	ANS:	A	OBJ:	4.10.3.2	TOP:	interest
MAT	CHING	1 <b>T</b>				
		_				
27.	ANS:		OBJ:	4.10.3.2		default
28.	ANS:		OBJ:	4.10.2.3		federal deposit insurance corporation
	ANS:			4.10.3.2		mortgage
	ANS:		OBJ:			commodity money
	ANS:			4.10.1.2		currency
	ANS:			4.10.3.2		interest
33.	ANS:	D	OBJ:	4.10.1.3	TOP:	representative money
34.	ANS:	A	OBJ:	4.11.1.1	TOP:	investment
35.	ANS:	E	OBJ:	4.11.2.1	TOP:	yield
36.	ANS:	E	OBJ:	4.11.1.2	TOP:	financial asset
37.	ANS:	C	OBJ:	4.11.3.1	TOP:	capital gain
38.	ANS:	A	OBJ:	4.11.3.3		bear markets

OBJ: 4.11.1.1

OBJ: 4.11.1.4

OBJ: 4.11.3.3

OBJ: 4.11.3.4

TOP: investment

TOP: bull market

TOP: speculation

TOP: return

# SHORT ANSWER

- 43. ANS: A
- 44. ANS: C
- 45. ANS: A
- 46. ANS: C
- 47. ANS: A
- 48. ANS: A
- 49. ANS: D
- 50. ANS: E