Multiple Choice

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

1. Which of the following is an example of a barter system?
   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
   b. portability
   c. uniformity
   d. divisibility

3. Which of the following is an example of representative money?
   a. a fur coat
   b. diamonds
   c. gold earrings
   d. an IOU note

4. What is the purpose of the Federal Deposit Insurance Corporation (FDIC)?
   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
   b. real estate
   c. college tuition
   d. business expenses

6. Which of the following is NOT an example of a liquid asset?
   a. cash
   b. travelers’ checks
   c. a certificate of deposit
   d. a checking account

7. Why is using coins as money easier than using gold bars?
   a. coins are more durable
   b. coins are more portable
   c. coins are more uniform
   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. The credit card issuer pays the store.
   b. The money is immediately deducted from your account.
   c. The amount of the purchase is deducted from a prepaid account.
   d. 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. Penny is an artist, and John is a carpenter. Penny agrees to paint a portrait of John’s family in exchange for a handmade table created by John. How did Penny and John pay for the goods in their transaction?
   a. using a store of value  c. through bartering  
   b. with money  d. with currency

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. all of the above

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. Which characteristic of money did the Russian currency lack?
   a. acceptability  c. limited supply  
   b. uniformity  d. durability

14. You decide to open a savings account, and you notice a sign in your bank that indicates deposits are FDIC insured. What protection does that give you?
   a. If the bank fails, your deposits are protected up to $250,000.  
   b. If you accidentally injure someone, they cannot claim any of the first $100,000 of your bank deposits as compensation.  
   c. Your deposits are guaranteed a certain rate of interest if you have at least $100,000 in the bank.  
   d. If you accidentally withdraw more money than you have in your account, you will not have to pay a penalty.

15. Erin borrowed $18,000 to buy a car. Her loan will be paid off in 5 years. By the time that she pays off the loan, she will have made $20,327 in payments. Why did she have to pay $2,327 more than the price of the car?
   a. She had to pay interest of $2,327 for the privilege of borrowing the principal of $18,000.  
   b. She had to pay principal of $2,327 for the privilege of borrowing the mortgage of $18,000.  
   c. She had to pay a default of $2,327 for the privilege 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 investment policy is that it
   a. reduces risk to investors.  
   b. increases investors’ access to their money.  
   c. offsets the effects of inflation on investments.  
   d. guarantees a fixed rate of return on an investment.

17. An accurate statement about government bonds would 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 ownership in a corporation.

18. The interest rate the bond issuer pays to the bondholder is called the
   a. coupon rate.  
   b. maturity rate.  
   c. discount rate.  
   d. value rate.

19. To finance the building of a new police station, a local government is most likely to issue a
   a. junk bond.  
   b. treasury bond.  
   c. municipal bond.  
   d. money market bond.

20. Investing in a money market mutual fund is a higher risk than investing in a certificate of deposit because unlike CDs, money market funds
   a. are not insured by the FDIC.  
   b. are not protected by the Securities and Exchange Commission.  
   c. do not earn a fixed interest rate.  
   d. must be held for a preset amount of time.
21. When you invest in a mutual fund,
   a. your money is invested in a variety of insurance policies.
   b. you have easier access to your money than in a savings account.
   c. your money is invested in a variety of stocks and bonds.
   d. you are guaranteed a fixed return on your investment.

22. All of the following are low-risk investments EXCEPT
   a. junk bonds.
   b. treasury bonds.
   c. municipal bonds.
   d. savings bonds.

23. In June, Leslie wins a cash prize of $2,000. She plans to use this money to pay her tuition bill in September. Leslie puts this money in a savings account because her main priority is
   a. receiving the maximum amount of interest possible.
   b. taking a risk in hopes that she’ll get a high return.
   c. liquidity, since she’ll need to use the money in a short time.
   d. making a safe long term investment.

24. Why would a person invest in junk bonds?
   a. He does not know anything about investment.
   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. Your friend Jorge has just inherited $1000 and would like to invest the money in the stock market. You suggest that he
   a. contact a brokerage firm, who will put him in touch with a stockbroker.
   b. reserve a seat at the New York Stock exchange.
   c. contact Nasdaq, who will assign a stockbroker to him.
   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 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
28. the government agency that makes sure that customers’ money is safe if a bank fails
29. 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.*

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<td>bull market</td>
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<td>c.</td>
<td>capital gain</td>
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<td>d.</td>
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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.*

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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
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MULTIPLE 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  TOP: representative money
4. ANS: B  OBJ: 4.10.2.3  TOP: federal deposit insurance corporation
5. ANS: B  OBJ: 4.10.3.2  TOP: mortgage
6. ANS: C  OBJ: 4.10.3.1  TOP: liquidity
7. ANS: B  OBJ: 4.10.1.2  TOP: money
8. ANS: B  OBJ: 4.10.1.3  TOP: fiat money
9. ANS: A  OBJ: 4.10.3.2  TOP: credit card
10. ANS: D  OBJ: 4.10.3.1  TOP: money supply
11. ANS: C  OBJ: 3.9.3.2  TOP: 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: B  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

MATCHING

27. ANS: D  OBJ: 4.10.3.2  TOP: default
28. ANS: E  OBJ: 4.10.2.3  TOP: federal deposit insurance corporation
29. ANS: C  OBJ: 4.10.3.2  TOP: mortgage
30. ANS: C  OBJ: 4.10.1.3  TOP: commodity money
31. ANS: B  OBJ: 4.10.1.2  TOP: currency
32. ANS: B  OBJ: 4.10.3.2  TOP: 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  TOP: bear markets
39. ANS: D  OBJ: 4.11.1.1  TOP: investment
40. ANS: D  OBJ: 4.11.1.4  TOP: return
41. ANS: B  OBJ: 4.11.3.3  TOP: bull market
42. ANS: E  OBJ: 4.11.3.4  TOP: speculation
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