

**Midterm review**

**Multiple Choice**

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

- \_\_\_\_\_ 1. For the purposes of computing interest compounded daily, a year is generally considered to be
  - a. 336 days.
  - b. 365 days.
  - c. 366 days.
  - d. 360 days.
  
- \_\_\_\_\_ 2. Banks move money between
  - a. banks and individual customers.
  - b. governments.
  - c. other banks.
  - d. all of the above.
  
- \_\_\_\_\_ 3. Which of the following is NOT a function of the Federal Reserve?
  - a. conducting bank examinations
  - b. handling the government's central banking function
  - c. levying a high tax on state bank notes
  - d. determining whether banks can borrow money from the Federal Reserve
  
- \_\_\_\_\_ 4. Which of the following statements about open-end loans is true?
  - a. The longer you use the money, the more you pay.
  - b. The term is fixed.
  - c. An automobile loan is probably the most common type of open-end loan.
  - d. The amount owed is fixed.
  
- \_\_\_\_\_ 5. Which of the following is NOT considered a factor in money creation?
  - a. the demand for money
  - b. the Federal Reserve's supply and control of money
  - c. banks' use of money
  - d. the printing of currency by the Bureau of Engraving and Printing
  
- \_\_\_\_\_ 6. To which category of the money supply do transaction accounts belong?
  - a. M1
  - b. MZM
  - c. M3
  - d. M2
  
- \_\_\_\_\_ 7. Which of the following governing documents list interest rates in effect at the time for various types of accounts?
  - a. account rules
  - b. disclosure statements
  - c. deposit rate schedules
  - d. fee schedules
  
- \_\_\_\_\_ 8. Which of the following statements about banks is NOT true?
  - a. All banks are organized as corporations.
  - b. Banks may be chartered by either federal or state governments.
  - c. Banks are essential to maintaining the economy.

d. Banks distribute the medium of exchange.

- \_\_\_ 9. What was the most common medium of exchange in colonial America?
- checks
  - coins
  - pieces of gold and silver
  - paper money
- \_\_\_ 10. Money on deposit, minus \_\_\_\_, can be loaned by banks to customers.
- excess reserves
  - cash on hand
  - primary reserves
  - the reserve requirement
- \_\_\_ 11. Which of the following elements of the money supply, as defined by the Federal Reserve, can be spent immediately?
- MZM
  - M3
  - M2
  - M1
- \_\_\_ 12. All of the following are considered installment loans except
- education loans.
  - automobile loans.
  - lines of credit.
  - home equity loans.
- \_\_\_ 13. The second Bank of the United States
- was considered a great friend by state banks.
  - was thought by Andrew Jackson to represent the advancement of the few at the expense of the many.
  - bowed to political pressure and made no attempt to regulate credit and the money supply.
  - gained strength throughout the life of its first charter, eventually being granted a charter renewal in 1836.
- \_\_\_ 14. If banks must hold more money in reserve,
- the money supply will expand.
  - there is more money available to lend.
  - there is less money available to lend.
  - both a and b, but not c.
- \_\_\_ 15. The largest denomination of paper currency in the United States today is the
- five hundred dollar note.
  - ten thousand dollar note.
  - one hundred dollar note.
  - one thousand dollar note.
- \_\_\_ 16. Which of the following is a non-depository intermediary?
- commercial bank
  - insurance company
  - savings and loan association
  - credit union

- \_\_\_\_\_ 17. The Civil War in America brought monetary issues to a crisis point because
- state banks began to lose influence.
  - rampant inflation threatened the entire economic system.
  - the counterfeiting of money became widespread.
  - all of the above.
- \_\_\_\_\_ 18. The difference between what a bank pays in interest and what it receives in interest is called
- spread.
  - gross interest income.
  - profit.
  - loss.
- \_\_\_\_\_ 19. One result of competition among banks is that
- more banks exist now than a decade ago.
  - the trend toward mergers in the banking industry has slowed.
  - more services are available to consumers.
  - all of the above.
- \_\_\_\_\_ 20. One big difference between a commercial bank and a mutual savings bank is that
- a commercial bank is owned by depositors, not stockholders.
  - a mutual savings bank is owned by depositors, not stockholders.
  - a commercial bank is a non-depository intermediary.
  - a mutual savings bank is a not-for-profit organization.
- \_\_\_\_\_ 21. Which of the following would be considered a *secondary* reserve for a bank?
- cash the bank has on hand
  - the reserve percentage required by the Federal Reserve System
  - securities the bank has purchased from the Federal government
  - deposits that may be due from other banks
- \_\_\_\_\_ 22. The interest rate the Federal Reserve charges for loans to member banks is called the
- treasury rate.
  - discount rate.
  - prime rate.
  - market rate.
- \_\_\_\_\_ 23. Which of the following attempts to protect the information that credit bureaus may collect?
- Fair Debt Collection Act
  - Fair Credit Reporting Act
  - Truth in Lending Act
  - Equal Credit Opportunity Act
- \_\_\_\_\_ 24. In the United States, banks and \_\_\_\_\_ work together to form the banking system and to ensure the money supply is adequate, appropriate, and trustworthy.
- savings and loans
  - consumers
  - the government
  - industry
- \_\_\_\_\_ 25. The official currency of the United States can properly be classified as
- product money.
  - commodity money.
  - fiat money.

d. conventional money.

- \_\_\_\_\_ 26. Adding interest to the principal and paying interest on the new total is called paying
- total interest.
  - compound interest.
  - simple interest.
  - semi-annual interest.
- \_\_\_\_\_ 27. Which of the following elements of the FICO credit-scoring system carries the most weight?
- new credit
  - types of credit
  - length of credit history
  - payment history
- \_\_\_\_\_ 28. The National Currency Act of 1863 did all of the following EXCEPT
- made the printing of state bank notes unprofitable.
  - taxed state bank notes.
  - established the basic banking system in use today.
  - established standards for currency.
- \_\_\_\_\_ 29. The Federal Reserve influences the federal funds rate by
- buying and selling government securities.
  - adjusting the reserve requirement.
  - lowering the discount rate.
  - all of the above.
- \_\_\_\_\_ 30. Which of the following accounts are you LEAST likely to encounter at a modern bank?
- certificate of deposit
  - checking account
  - passbook savings account
  - money market account
- \_\_\_\_\_ 31. Which of the following statements about reserve requirements is true?
- Reserve requirements are the most important factor in bank lending.
  - Reserve requirements apply to the M1 and M2 money supply.
  - If reserve requirements are low, banks must keep back more money and therefore have less to lend.
  - Reserve requirements do not change very often.
- \_\_\_\_\_ 32. Documentation of most credit problems stays in a consumer's file for at least
- seven years.
  - six months.
  - five years.
  - one year.
- \_\_\_\_\_ 33. Which of the following is NOT a source of income for a bank?
- loan income
  - investments
  - fees for services
  - the interest earned by depositors
- \_\_\_\_\_ 34. The Emergency Banking Act of 1933
- separated commercial banking from investment banking to protect assets.

- b. established a bank holiday that closed all banks in the country for one month.
- c. expanded the monetary controls of the Federal Reserve.
- d. founded the system of central banking still used in the United States.

- \_\_\_\_\_ 35. Which of the following accounts is the MOST liquid?
- a. certificate of deposit
  - b. money market account
  - c. savings account
  - d. checking account
- \_\_\_\_\_ 36. Which of the following shows the steps of the credit-approval process in proper order?
- a. application, processing, documentation, underwriting, closing, funding
  - b. documentation, application, underwriting, closing, processing, funding
  - c. application, documentation, processing, underwriting, closing, funding
  - d. underwriting, application, documentation, processing, closing, funding
- \_\_\_\_\_ 37. A check that is dated six months or more before it is presented for payment or deposit is called a(n)
- a. overdraft check.
  - b. stale check.
  - c. bounced check.
  - d. post-dated check.
- \_\_\_\_\_ 38. About 60 percent of the deposit and loan business in the United States is done by
- a. retail banks.
  - b. central banks.
  - c. credit unions.
  - d. commercial banks.
- \_\_\_\_\_ 39. Which of the following is NOT a time deposit?
- a. money market account
  - b. certificate of deposit
  - c. savings account
  - d. checking account
- \_\_\_\_\_ 40. Which of the following interest rates is linked to some other rate?
- a. indexed rate
  - b. variable rate
  - c. discount rate
  - d. prime rate
- \_\_\_\_\_ 41. Which of the following is considered a liability for a bank?
- a. loans
  - b. deposits
  - c. investments
  - d. none of the above; banks are prohibited by law from carrying liabilities
- \_\_\_\_\_ 42. A legal claim a lender has on property to secure a debt is called
- a. an acceleration clause.
  - b. a lien.
  - c. a garnishment.
  - d. collateral.
- \_\_\_\_\_ 43. Which of the following statements is NOT true?

- a. Bill collectors may not call debtors at odd hours.
  - b. Credit bureaus may not report information more than one year old.
  - c. A creditor may not use receipt of public assistance as a factor in determining creditworthiness.
  - d. If there is a billing dispute, creditors may not take adverse action until the dispute is resolved.
- \_\_\_\_\_ 44. This finance charge method takes the total finance charge, divides it by the number of months in the loan term, and assigns a higher ratio of interest to the early payments.
- a. adjusted balance method
  - b. previous balance method
  - c. sum-of-digits method
  - d. average daily balance method
- \_\_\_\_\_ 45. The Federal Deposit Insurance Corporation (FDIC) currently guarantees bank deposits against bank failures up to
- a. \$10,000.
  - b. \$1,000,000.
  - c. \$50,000.
  - d. \$100,000.
- \_\_\_\_\_ 46. The rate of interest the Federal Reserve charges banks for short-term loans is called the
- a. prime rate.
  - b. discount rate.
  - c. reserve requirement rate.
  - d. federal funds rate.
- \_\_\_\_\_ 47. If there is too much money moving in the economy
- a. prices may rise, causing inflation.
  - b. unemployment will probably rise.
  - c. prices will fall, causing widespread business failure.
  - d. both a and b, but not c
- \_\_\_\_\_ 48. To combat inflation in the 1970s and 1980s, the Federal Reserve
- a. loosened the money supply.
  - b. allowed interest rates to rise.
  - c. enacted wage and price controls.
  - d. allowed interest rates to fall.
- \_\_\_\_\_ 49. The most common form of a transaction account is a
- a. money market account.
  - b. checking account.
  - c. certificate of deposit.
  - d. savings account.
- \_\_\_\_\_ 50. Which of the following assets is the *most* liquid?
- a. the money in your savings account
  - b. a certificate of deposit that comes due in six months
  - c. 100 shares of stock in a Fortune 500 company
  - d. the money in your wallet

## Numeric Response

51. This month, costs for SafeCo Bank were \$750,000; the bank collected \$970,000 in revenue. Find the bank's profit for the month.
52. Suppose the Fed requires all banks to hold a reserve of 5 percent on the first \$60 million of customer deposits, and 12 percent on all deposits above that. If a bank has \$125 million on deposit, what is the amount of the reserve requirement?
53. Last year, profits for Fidelity Bank totaled \$1.1 million; spread was \$5.6 million. Find the bank's costs for the year.
54. Suppose the Fed requires all banks to hold a reserve of 4 percent on the first \$45 million of customer deposits, and 10 percent on all deposits above that. If a bank has \$100 million on deposit, what is the amount of the reserve requirement?
55. On January 1, the cost of a product is \$50. If inflation for that year is 12 percent, what does the product cost on December 31 of that year?
56. Suppose you borrow \$1000 and pay the loan back in 12 equal payments of \$95.50. What is the finance charge for this loan?
57. Angie's salary is \$45,000. If inflation this year is 3 percent, what does Angie's salary need to be in order to hold the same purchasing value?
58. Suppose Theo wrote 132 checks last year. How many checks did he write every month, on average?
59. Solomon has a balance of \$4000 on his credit card account, which has a minimum payment requirement of 4 percent. What is the minimum payment on this account?
60. Regina's bank charges \$1 for each ATM transaction, 50 cents for each online bill payment, and a \$10 monthly maintenance fee for her checking account. Last month, Regina used an ATM five times and paid seven bills online. What did she incur in banking fees for the month?
61. Last year, First National Bank of Springfield paid \$5.1 million in interest to depositor; it collected \$7.8 million in interest from loans. Calculate the spread.
62. Calculate the total amount of money "created" from a deposit of \$5,000 as it moves through four cycles of deposit. Assume a reserve rate of 15 percent. (Round answer to nearest two decimal places.)
63. Calculate the total amount of money "created" from a deposit of \$10,000 as it moves through four cycles of deposit. Assume a reserve rate of 12 percent. (Round answer to nearest two decimal places.)
64. Assume that a bank receives a \$5,000 deposit from a customer and lends it to another customer to start a small business. The bank pays a straight 5% per year interest to the customer and charges 10% per year for the loan. Calculate the spread for one year.
65. Augie's savings account pays simple interest. He began with a deposit of \$2000; at the end of one year, he had earned \$80 in interest. Find the interest rate on the account.

66. If there were 24,000 banks in the United States at the beginning of the Great Depression, and only 14,000 remaining at the end, what percentage of banks failed during that time? (Round answer to two decimal places.)
67. Suppose the total amount of currency (i.e., Federal Reserve notes and coins) in circulation today is \$555 billion. If 95 percent of this amount consists of Federal Reserve notes, what amount of currency in circulation consists of coins?
68. Calculate the simple interest earned on a savings account in nine months that begins with a deposit of \$500 and pays 3 percent interest.
69. The original cost of a product is \$75. Inflation for the first year is 8 percent; for the second year, inflation is 10 percent. What is the cost of the product at the end of the second year?
70. Last year, the average account balance among students at Chesterfield College who use credit cards was \$2800. If this figure increased by 4.5 percent this year, what is the average balance held by Chesterfield students now?
71. Calculate the simple interest earned on a savings account in six months that begins with a deposit of \$5000 and pays 6 percent interest.
72. Becky has a balance of \$2000 on her credit card. Her minimum payment is \$40 on a card with an APR of 17 percent. How much of that payment will go toward paying the interest? (Round to two decimal places.)
73. The U.S. government currently prints paper currency in seven different denominations, or amounts. If you had one bill of each of these seven denominations, how much money would you have?
74. Suppose you borrow \$5000 and make 12 equal payments to retire the debt. If the finance charge for the loan is \$400, what will the amount of each monthly payment be?
75. Assume that a bank receives a \$10,000 deposit from a customer and lends it to another customer to buy a used car. The bank pays a straight 6% per year interest to the customer. The spread for one year is \$300. What is the interest rate the bank is charging for the loan?
76. Keri's savings account pays simple interest at a rate of 4.5 percent. After nine months, the account had earned \$202.50 in interest. Find the principal.
77. Between 1929 and 1939, the personal fortune of Stuart Gottrocks lost 75 percent of its value. If the Gottrocks fortune was worth \$5 million at the beginning of the 1929, what was it worth at the end of 1939?
78. If 6 percent of all credit card charges never get paid, and total credit card charges last year were \$750 billion, what was the total amount of unpaid credit card charges last year?
79. Barry earns a monthly income of \$2500. He receives a 12 percent raise. What is his monthly income now?
80. Natasha's checking account charges a basic monthly fee of \$5. It allows her to write ten checks each month for free; it charges her \$2 for every additional check she writes. The account also charges Natasha \$1 each time she uses an ATM machine. What total fees did Natasha pay in April if she wrote 17 checks and used the ATM machine six times?