

**JMS COLLEGE, MUNGER, BIHAR
(MUNGER UNIVERSITY)
Department of Commerce**

**B.Com Part-II (Banking)
Multiple Choice Questions (MCQs)**

1. The term structure of interest rates is usually defined with respect to yields on
 - a. Corporate bonds
 - b. Commercial paper
 - c. U.S. Treasury securities
 - d. Municipal bonds

2. The adverse selection problem in financial markets creates a profit opportunity because
 - a. it opens a gap between the cost of short-term funds and the cost of long-term funds.
 - b. savers are willing to pay for information about the quality of potential borrowers.
 - c. it results in the value of a company's stock being well below the value of the company's assets.
 - d. it makes bond-financed projects cheaper than stock-financed projects.

3. The moral hazard problem in financial markets
 - a. Is difficult if not impossible to solve.
 - b. Results in inefficient pricing of financial assets.
 - c. Is a type of information cost that may result in the borrower pledging assets as collateral.
 - d. All of the above.

4. Money market mutual funds
 - a. hold portfolios of stocks.
 - b. hold portfolios of short-term assets.
 - c. are always load funds.
 - d. hold only U.S. Treasury securities.

5. Which of the following represented the largest asset on the balance sheet of U.S. banks in 2004?

- a. Checkable deposits
- b. Loans
- c. Non-transaction deposits
- d. US Government obligations

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6. The interest rate on unsecured loans between banks is called the

- a. discount rate.
- b. repurchase rate.
- c. T-bill rate.
- d. federal funds rate.

7. If you deposit a \$50 check in the bank, before the check has cleared, the change in your bank's balance sheet will be

- a. a \$50 increase in reserves and a \$50 increase in checkable deposits.
- b. a \$50 increase in cash items in the process of collection and a \$50 increase in reserves.
- c. a \$50 increase in cash items in the process of collection and a \$50 increase in checkable deposits.
- d. a \$50 increase in cash and a \$50 increase in checkable deposits.

8. A bank run involves

- a. a failure by a bank to get the maximum return on its investments
- b. large numbers of depositors withdrawing their deposits in a short period of time.
- c. Widespread exposure of bank employees to a stomach virus.
- d. fraud on the part of a bank's management.

9. When households and businesses substitute Treasury bills, commercial paper, and repurchase agreements for short-term bank deposits in their portfolios, they are

- a. sacrificing liquidity for return.
- b. sacrificing return for liquidity.
- c. increasing both their liquidity and return.
- d. decreasing both their liquidity and return.

10. The Consumer Price Index (CPI) in the previous year was 125, and this year the CPI was 132. If the average rate of time preference (real rate) is 3%, what should the nominal rate of interest equal?

- a. 2.6%
- b. 3.0%
- c. 8.6%
- d. 10.0%.

Note : Dear students, for any doubt or clarification, send your query at madhulika.kvs@gmail.com

ANSWERS

1. (c)	2. (b)	3. (c)	4. (b)	5. (b)	6. (d)	7. (c)	8. (b)	9. (a)
10. (c)								