Chapter 1

Financial markets promote economic efficiency by

A) channeling funds from investors to savers.
B) creating inflation.
C) channeling funds from savers to investors.
D) reducing investment.

Answer: C

Markets in which funds are transferred from those who have excess funds available to those who have a shortage of available funds are called

A) commodity markets.
B) fund-available markets.
C) derivative exchange markets.
D) financial markets.

Answer: D

Low stock market prices might ________ consumers willingness to spend and might ________ businesses willingness to undertake investment projects.

A) increase; increase
B) increase; decrease
C) decrease; decrease
D) decrease; increase

Answer: C

It is true that inflation is a

A) continuous increase in the money supply.
B) continuous fall in prices.
C) decline in interest rates.
D) continually rising price level.

Answer: D

Chapter 2

Well-functioning financial markets

A) cause inflation.
B) eliminate the need for indirect finance.
C) cause financial crises.
D) allow the economy to operate more efficiently.

Answer: D

You can borrow $5000 to finance a new business venture. This new venture will generate annual earnings of $251. The maximum interest rate that you would pay on the borrowed funds and still increase your income is

A) 25%.
B) 12.5%.
C) 10%.
D) 5%.

Answer: D

A corporation acquires new funds only when its securities are sold in the

A) primary market by an investment bank.
B) primary market by a stock exchange broker.
C) secondary market by a securities dealer.
D) secondary market by a commercial bank.

Answer: A

Equity instruments are traded in the ________ market.

A) money
B) bond
C) capital
D) commodities

Answer: C

U.S. Treasury bills are considered the safest of all money market instruments because there is a low probability of

A) defeat.
B) default.
C) desertion.
D) demarcation.

Answer: B

Economies of scale enable financial institutions to

A) reduce transactions costs.
B) avoid the asymmetric information problem.
C) avoid adverse selection problems.
D) reduce moral hazard.

Answer: A