

unit four

Multiple Choice

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

- _____ 1. Which of the following correctly defines money as a unit of account?
- It determines whether a good has value.
 - It is determined to be legal by the person in possession of it.
 - It provides a means for comparing the values of goods and services.
 - It does not retain its value when saved instead of spent.
- _____ 2. One of the six characteristics economists use to judge how well an item serves as currency is divisibility. What does this concept mean?
- Currency must be divided into equal parts.
 - Money must be indestructible and portable.
 - Any two units of currency must be uniform.
 - Money must be easily divided into smaller denominations.
- _____ 3. What is the difference between commodity money and representative money?
- Commodity money consists of objects used as money that contain their own value, but representative money is a specific group of the commodity objects.
 - Commodity money consists of objects that have value in and of themselves, but representative money makes use of objects because the holder can exchange them for something else of value.
 - Representative money allows objects to be exchanged for something else, but commodity money has value because the government decreed it is an acceptable means to pay debts.
 - Representative money consists of objects that have value in and of themselves, but commodity money makes use of objects because the holder can exchange them for something else of value.
- _____ 4. Which of the following is an important power given to the federal government by the National Banking Acts of 1863 and 1864?
- the power to charter banks
 - the power to create separate currencies for the North and the South
 - the power to create a gold standard
 - the power to test for counterfeit money
- _____ 5. How did the Federal Reserve System improve the banking industry in the twentieth century?
- It created a reserve of money that all banks would use for loans.
 - It created a branch of government to monitor the banking system.
 - It served as a decision-making body to regulate the federal banks.
 - It served as a central bank with the power to lend to other banks in time of need.

Compound Interest

Start of year	Principal amount	Interest earned at 5%	Principal at end of year
–	\$100.00	\$5.00	\$105.00
1	\$105.00	\$5.25	\$110.25
2	\$110.25	\$5.51	\$115.76
3	\$115.76	\$5.79	\$121.55

- c. You should consider whether you will need ready access to your funds.
- d. You should consider a company's portfolio as a whole and not just look at a single investment.

- _____ 12. Which type of bond carries the LEAST amount of risk?
- a. treasury bonds, because they are backed by the U.S. government
 - b. corporate bonds, because they are exempt from federal taxes
 - c. municipal bonds, because they are backed by state and local taxes
 - d. international bonds, because they are backed by foreign currencies
- _____ 13. Which of the following are benefits of money market mutual funds?
- a. They cost little, and the investor chooses the term of maturity.
 - b. Intermediaries buy short-term financial assets, and investors receive higher interest.
 - c. Investors have easy access to their money, and they are covered by FDIC insurance.
 - d. The funds are covered by FDIC insurance, and they are available for various fixed amounts of time.
- _____ 14. Liquidity is important to John. If he wants to make certain that he can resell his financial assets, in which market classification must he participate?
- a. primary market
 - b. secondary market
 - c. capital market
 - d. money market
- _____ 15. How do investors usually act during a bear market?
- a. Investors buy stock in expectation of higher profits because the stock market falls for a period of time.
 - b. Investors sell stock in expectation of lower profits because the stock market rises for a period of time.
 - c. Investors buy stock in expectation of higher profits because the stock market rises for a period of time.
 - d. Investors sell stock in expectation of lower profits because the stock market falls for a period of time.
- _____ 16. Why might someone consider the Standard & Poor's 500 (S & P 500) a better measurement of stock performance than the Dow Jones Industrial Average?
- a. The S & P 500 reports stock performance daily, and the Dow reports weekly.
 - b. The Dow reports on 30 stocks and the S & P 500 tracks 500 stocks as a measure of overall stock performance.
 - c. The S & P 500 predicted the Great Crash of 1929, and the Dow predicted a rising bull market.
 - d. The Dow specializes in the stocks of a single industry, and the S & P 500 reports on the stocks of a variety of industries.
- _____ 17. What is the money an investor receives above and beyond the money initially invested called?
- a. savings
 - b. liquidity
 - c. return
 - d. investment
- _____ 18. The Securities and Exchange Commission is
- a. an independent agency that advises the government about financial markets.
 - b. a government agency that sells treasury bonds and other United States financial obligations.
 - c. a government agency that regulates financial markets and investment companies.
 - d. a privately owned investment corporation that sells bonds and other investments.
- _____ 19. What is the gold standard?
- a. A system that uses actual gold coins as a country's money.
 - b. A system in which a country's money is backed with gold.
 - c. A currency system in which each dollar is worth 1/20 of a pound of gold.

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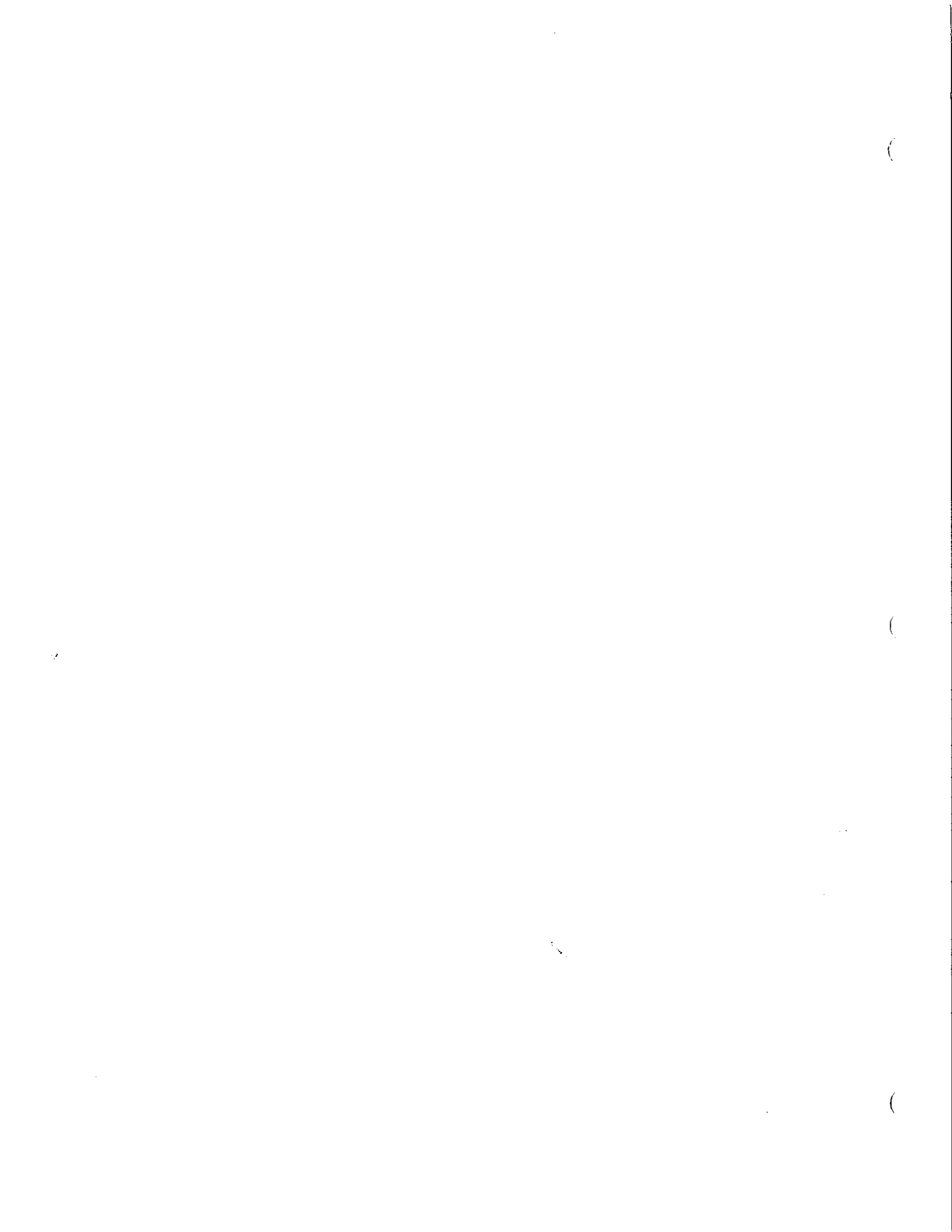
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unit four test
Answer Section

MULTIPLE CHOICE

1. ANS: C DIF: Medium REF: 244 OBJ: 10.1.1
TOP: money as a unit of account
2. ANS: D DIF: Easy REF: 245-246 OBJ: 10.1.2
TOP: characteristics of money
3. ANS: B DIF: Hard REF: 246-248 OBJ: 10.1.3
TOP: sources of money's value
4. ANS: A DIF: Easy REF: 252-253 OBJ: 10.2.2
TOP: national banking acts
5. ANS: D DIF: Medium REF: 254-255 OBJ: 10.2.3
TOP: the federal reserve system
6. ANS: B DIF: Easy REF: 261 OBJ: 10.3.2
TOP: compound interest
7. ANS: C DIF: Medium REF: 262-263 OBJ: 10.3.3
TOP: financial institutions/finance companies
8. ANS: A DIF: Medium REF: 263-264 OBJ: 10.3.4
TOP: electronic banking/debit cards
9. ANS: B DIF: Easy REF: 271 OBJ: 11.1.1
TOP: investing and free enterprise
10. ANS: D DIF: Medium REF: 272-273 OBJ: 11.1.3
TOP: financial intermediaries
11. ANS: C DIF: Medium REF: 274-275 OBJ: 11.1.4
TOP: liquidity
12. ANS: A DIF: Medium REF: 280-282 OBJ: 11.2.2
TOP: bonds
13. ANS: B DIF: Medium REF: 282 OBJ: 11.2.3
TOP: money market mutual funds
14. ANS: B DIF: Medium REF: 283 OBJ: 11.2.4
TOP: primary versus secondary markets
15. ANS: D DIF: Medium REF: 290 OBJ: 11.3.3
TOP: bear markets
16. ANS: B DIF: Medium REF: 290 OBJ: 11.3.3
TOP: measuring stock performance
17. ANS: C DIF: Easy REF: 274-275 OBJ: 11.1.4
TOP: investing
18. ANS: C DIF: Medium REF: 281 OBJ: 11.2.3
TOP: securities and exchange commission
19. ANS: B DIF: Medium REF: 253 OBJ: 10.2.2
TOP: gold standard



unit four vocabulary

Matching

Identifying Key Terms

Match each term with the correct statement below.

- a. currency
- b. commodity money
- c. default
- d. Federal Deposit Insurance Corporation (FDIC)
- e. Federal Reserve System
- f. fiat money
- g. interest
- h. money market mutual fund
- i. principal
- j. representative money

- _____ 1. money that has value because the government has ordered that it is an acceptable means to pay debts
- _____ 2. the central banking system of the United States
- _____ 3. failure to pay back a loan
- _____ 4. the amount of money borrowed
- _____ 5. coins and paper bills used as money
- _____ 6. the price paid for the use of borrowed money
- _____ 7. objects that have value in themselves and that are also used as money
- _____ 8. money pooled from small investors and used to purchase government or corporate bonds

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)
- f. Federal Reserve System
- g. interest
- h. mortgage
- i. principal
- j. representative money

- _____ 9. failure to pay back a loan
- _____ 10. the government agency that makes sure that customers' money is safe if a bank fails
- _____ 11. a specific type of loan that is used to buy real estate
- _____ 12. objects that have value in themselves and that are also used as money
- _____ 13. coins and paper bills used as money
- _____ 14. the price paid for the use of borrowed money
- _____ 15. a system that keeps only a fraction of funds on hand and lends out the remainder
- _____ 16. 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 | f. investment |
| b. bull market | g. par value |
| c. capital gain | h. portfolio |
| d. equities | i. prospectus |
| e. financial asset | j. yield |

- _____ 17. an investment report to potential investors
- _____ 18. the use of assets to earn income or profits
- _____ 19. amount paid to purchase a bond that will be repaid at maturity
- _____ 20. the annual rate of return on a bond if the bond were held to maturity
- _____ 21. claim on the property or income of a borrower
- _____ 22. claims of ownership in a corporation
- _____ 23. the difference between a higher selling price and a lower purchase price, resulting in a financial gain for the seller
- _____ 24. 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 | f. portfolio |
| b. bull market | g. primary market |
| c. equities | h. prospectus |
| d. investment | i. return |
| e. money market | j. speculation |

- _____ 25. the act of redirecting resources from being consumed today so that they may create benefits in the future
- _____ 26. a collection of financial assets
- _____ 27. the money an investor receives above and beyond the sum of money initially invested
- _____ 28. market for selling financial assets that can only be redeemed by the original holder
- _____ 29. claims of ownership in a corporation
- _____ 30. market in which money is lent for periods less than a year
- _____ 31. a steady rise in the stock market over a period of time
- _____ 32. the practice of making high-risk investments with borrowed money in hopes of getting a big return