

Unit 4 Study Guide Answers

Chapter 10: Money and Banking

Section 1

1. What is the main difficulty of a barter system?
2. A \$100 pair of shoes is worth two \$50 haircuts or four \$25 tickets to a baseball game. This example represents money performing which **function**?
3. What **function** is money performing when it can be saved without losing its value over time?
4. What **type** of money is issued by the United States government?
5. What are demand deposits?
6. What is included in M2 but not in M1?

Section 2

7. What was the immediate result of adopting the gold standard in 1900?
8. What is the purpose of the Federal Reserve System?
9. What is the main difference between a credit union and a bank?

Section 3

10. What was a major result of bank deregulation in the 1980s and 1990s?
11. What is the difference between credit cards and debit cards?
12. What is the most common example of a stored value card?
13. What is a possible negative consequence of electronic banking?

Chapter 11: Financial Markets

Section 1

14. What is the difference between savings and investments?
15. How does economic investment differ from personal investment?
16. What is an institution that helps to bring savers, borrowers, and financial assets together?
17. Why are financial intermediaries essential to the financial system?
18. What is one of the biggest advantages of a mutual fund?
19. Which of the following is a banking financial intermediary?: a credit union; a finance company; a mutual fund; a pension fund.
20. Of the following institutions, which is a nonbank financial intermediary?: commercial bank; credit union; finance company; savings and loan.
21. Why is compound interest better for savers than simple interest?
22. What two categories are used to classify financial asset markets?
23. Would a mortgage loan be more likely to be part of the capital market or the money market?
24. What is one advantage money markets have over capital markets?

Section 2

25. What is an investment objective?
26. What are two issues that play a role in choosing the right investments to meet a financial goal?
27. What is the most important thing to consider when saving for emergencies?
28. Of the following, which is a short-term financial goal?: saving for college, saving for the prom, saving for a house, saving to open a business.

29. In which scenario would you be most likely to invest in the stock market?: saving for the prom; saving for a vacation; saving for retirement; saving for a car.

30. What type of relationship do risk and return have?

31. In general, what level of risk do investments with high rates of return tend to carry?

32. What does the term diversification mean?

33. What is one investment that is considered almost risk free?

34. How can so called safe investments prove to be risky?

35. Why are corporate stocks risky?

36. In general, why do people put money in risky investments?

Section 3

37. What is the most important thing about stocks to an investor who is interested in capital gains?

38. What is a major risk when investing for capital gains?

39. What is the economic tradeoff involved in buying preferred stock?

40. What type of stock should an investor looking for income, more so than capital gains, purchase?

41. What determines stock prices?

42. Which stock exchange are over-the-counter traders in the United States most likely to use?

43. In what industry are many of the companies listed on NASDAQ?

44. What term describes the right, but not the obligation, to buy or sell stock at a future date for a preset price?

45. Which are more flexible contracts, futures or options?
46. What can be used to provide an overall view of the stock market's health?
47. What stock index is based on the stocks of 30 major companies on the New York Stock Exchange?
48. When does a bear market usually occur?
49. Who might welcome a bear market?

Section 4

50. What is the name of the amount that the issuer of a bond promises to pay the buyer at maturity?
51. What is the interest rate that a bondholder receives every year until the bond matures?
52. What is the difference between Treasury bonds and Treasury bills?
53. Why does the U.S. government issue securities?
54. What type of bonds is issued by state and local governments?
55. What advantage do most municipal bonds have over other investments?
56. What is the common name for high-risk, high-yield bonds issued by corporations?
57. What is the main element of risk associated with investing in bonds?
58. What is the biggest risk associated with long-term CDs?
59. What is a money market mutual fund?
60. When borrower fails to pay back a car loan, what action does the bank take?

